The World Bank as a Knowledge Agency

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Contents

Acronyms

CDF	Comprehensive Development Framework
EBRD	European Bank for Reconstruction and Development
E-HIPC	enhanced heavily indebted poor countries initiative
HIPC	heavily indebted poor countries
IFI	international financial institution
IMF	International Monetary Fund
NGO	non-governmental organization
PFP	Policy Framework Paper
PRSP	Poverty Reduction Strategy Paper
SPA	Strategic Partnership with Africa
UN	United Nations
US	United States

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Summary/Résumé/Resumen

Summary

This paper claims that the production of social knowledge in all international organizations is problematic, because of their nature as a form of public bureaucracy. This general claim is advanced as a modification of Weber's theory of bureaucracy. The modification points out the potential misalignment of the formal official hierarchy and the actual distribution of the means of power. This permits the emergence of a conflict between the aims of the disinterested researcher and the political neutrality imputed by Weber to the modern bureaucrat.

Section II turns to the World Bank (also referred to as the Bank) as a case study of the problems of managing social research inside an international public bureaucracy. It argues not only that managerial constraints exist on what the Bank is willing to publish, but also that the binding constraints on publication change over time, depending on managerial objectives and managerial competence in exercising editorial control over research output. These arguments are illustrated by the Bank's research on the debt problem of the developing countries in the 1980s, and internal dissent on the Washington consensus in the 1990s.

Section III examines the evolution in managerial objectives at the Bank in recent years, and the factors that have influenced shifts in its rhetoric and policy. In the last decade, the Bank has had to adjust to a variety of pressures from its major sponsors, arising both from geopolitical events and from opposition to particular institutional modes of operation. Under these pressures the Bank has added to its liberalizing mission a "new development agenda", which includes poverty reduction, improved governance and other non-governmental organization (NGO)–derived concerns.

This leads on to the underlying question of Section IV, which is whether the adoption of the new development agenda has brought about a fundamental transformation of attitudes at the Bank. Are we seeing signs of change, or only a change of signs? Recent research on the issues of poverty reduction, governance and conditionality (policy-based and process-based) are discussed in an effort to gauge how far the Bank has moved.

One may conclude that, not very surprisingly, the rhetoric of change has moved faster than the reality. Nevertheless, the Bank has taken significant new policy initiatives, in the attempt to respond to shortcomings in past attempts to instigate economic reform policies. The requirement that borrowers develop a national poverty reduction strategy, and do so in consultation with civil society was a bold move, which has met with limited success so far. At the same time, the advent of process conditionality does not seem to have replaced, or even much reduced, the use of policy-based conditionality.

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Résumé

Les auteurs prétendent ici que la production du savoir social est problématique dans toutes les organisations internationales, du fait de leur nature d'administration publique. Ils avancent cette proposition générale comme une modification de la théorie de Weber de la bureaucratie. La modification désigne un décalage potentiel entre la hiérarchie officielle et la répartition réelle des moyens du pouvoir, ce qui rend possible un conflit entre les buts du chercheur désintéressé et la neutralité politique imputée par Weber au bureaucrate moderne.

La section II est une étude de cas de la Banque mondiale (aussi dénommée la Banque) et des problèmes que peut poser la gestion de la recherche sociale dans une administration publique internationale. Les auteurs expliquent non seulement que des facteurs tenant à certains aspects de la gestion limitent ce que la Banque est prête à publier, mais aussi que les contraintes à respecter dans la publication changent avec le temps, selon les objectifs de la direction et la compétence qu'elle met à exercer un contrôle éditorial sur les produits de la recherche. Ils illustrent leur propos en prenant pour exemples les recherches de la Banque sur le problème de la dette des pays en développement dans les années 80, et la dissidence interne qui s'est exprimée sur le consensus de Washington dans les années 90.

La section III examine en quoi les objectifs de la direction de la Banque ont évolué ces dernières années et cherche à dégager les facteurs qui l'ont amenée à modifier son discours et sa politique. Au cours de la dernière décennie, la Banque a dû s'adapter aux diverses pressions qu'exercent sur elle ses principaux commanditaires et qui tiennent à la fois à des événements géopolitiques et à l'opposition à des modes de fonctionnement institutionnels particuliers. Sous ces pressions, la Banque a adjoint à sa mission de libéralisation un "nouveau programme de développement", auquel figurent la réduction de la pauvreté, l'amélioration de la gouvernance et d'autres préoccupations qui lui viennent des organisations non gouvernementales (ONG).

Les auteurs en arrivent ainsi à la question qui sous-tend la section IV: l'adoption de ce nouveau programme de développement a-t-elle entraîné un changement fondamental des attitudes de la Banque? Perçoit-on des signes de changement ou seulement un changement des signes? L'auteur passe en revue des recherches récentes sur les questions de la réduction de la pauvreté, de la gouvernance et de la conditionnalité (portant sur les politiques et sur les modalités) afin de juger de l'évolution de la Banque.

On peut conclure que le discours du changement est allé plus vite que la réalité, ce qui n'est pas très surprenant. Cependant, la Banque a pris d'importantes initiatives nouvelles, pour tenter de combler les lacunes de l'action qu'elle a menée dans le passé en qualité d'instigateur de politiques de réforme économique. Le fait d'exiger que les emprunteurs établissent une stratégie nationale de réduction de la pauvreté et le fassent en consultant la société civile ne manquait pas d'audace et n'a rencontré jusqu'ici qu'un succès limité. En même temps, les conditions fixées en matière de modalités ne semblent pas avoir remplacé ni même beaucoup réduit les conditions fixées en matière de politiques.

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Resumen

En el presente documento se postula que la producción de conocimiento social en todas las organizaciones internacionales es problemática, debido a la naturaleza de estas entidades como una forma de burocracia pública. Esta afirmación general ha sido propuesta como una modificación de la teoría de la burocracia de Weber. La modificación destaca el potencial desequilibrio entre la jerarquía oficial formal y la distribución real de los medios de poder. Esto abre las puertas a un conflicto entre los objetivos de un investigador desinteresado y la neutralidad política que Weber adscribe al burócrata moderno.

La segunda sección gira alrededor del Banco Mundial (o el Banco) como estudio de caso de los problemas que enfrenta la gestión de la investigación social en el ámbito de una burocracia pública internacional. Esta sección no solamente sostiene que, desde el punto de vista directivo, existen limitaciones en cuanto a lo que el Banco podría publicar, sino que además las

limitaciones vinculantes respecto a la divulgación cambian con el transcurso del tiempo, según los objetivos empresariales y la capacidad de la dirección para ejercer control editorial sobre los resultados de la investigación. Las investigaciones que ha conducido el Banco sobre el problema de la deuda de los países en desarrollo en la década de 1980 y el disentimiento interno en torno al Consenso de Washington en los años 90 sirven de ilustración de estos argumentos.

En la tercera sección se examina la evolución de los objetivos empresariales del Banco en los últimos años y los factores que han influenciado los cambios de la retórica y las políticas. En el último decenio, el Banco ha tenido que ajustarse a una serie de presiones que han ejercido sus principales patrocinadores como consecuencia de acontecimientos geopolíticos y la oposición a determinados modos de operación de la institución. Frente a estas presiones, el Banco ha agregado a su misión de liberalización una "nueva agenda de desarrollo", que incluye la reducción de la pobreza, el mejoramiento de la gobernabilidad y otras inquietudes derivadas de la labor de las organizaciones no gubernamentales.

Esto nos conduce a la pregunta que se formula en la cuarta sección, a saber, si la adopción de una nueva agenda de desarrollo ha traído consigo una transformación fundamental de las actitudes al interior del Banco. ¿Son éstas señales de cambio, o sólo un cambio de señales? En esta parte se analizan las investigaciones que se han realizado recientemente en el ámbito de la reducción de la pobreza, la gobernabilidad y la condicionalidad (en las políticas y en los procesos) en un intento por medir cuánto ha avanzado el Banco.

Podría concluirse que, para sorpresa de pocos, la retórica del cambio ha avanzado más rápidamente que la realidad misma. Sin embargo, el Banco ha tomado nuevas iniciativas de política importantes en un esfuerzo por responder a las deficiencias de sus intentos pasados por instigar la adopción de políticas de reforma económica. El requisito de que los países idearan una estrategia de lucha contra la pobreza y que lo hicieran en consulta con la sociedad civil fue un paso audaz, pero hasta la fecha ha tenido un éxito limitado. Al mismo tiempo, el advenimiento de la condicionalidad de los procesos no parece haber sustituido, o ni siquiera haber reducido, el uso de la condicionalidad basada en las políticas.

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Introduction

In considering the manner in which social knowledge is used in policy making in international financial institutions (IFIs), it is necessary to maintain a broad and comparative approach. It is altogether too easy to start from the conviction that certain international organizations have a negative (or positive) impact on developing countries, and then proceed to show how their use of social knowledge contributes to the type of impact that was assumed in the first place. Demonizing some international organizations while idealizing others is undoubtedly a very popular pastime, but it is one that generates more heat than light. This paper claims that the production of social knowledge in all international organizations is problematic, because of their nature as a form of public bureaucracy. This general claim, advanced as a modification of Weber's theory of bureaucracy, is argued in Section I.

Section II turns to the World Bank (also referred to as the Bank) as a case study of the problems of managing social research inside an international public bureaucracy. It argues not only that managerial constraints exist on what the Bank is willing to publish, but also that the binding constraints on publication change over time, depending on managerial objectives and managerial competence in exercising editorial control over research output.

Section III examines the evolution in managerial objectives at the Bank in recent years, and the factors that have influenced shifts in its rhetoric and policy. In the last decade, the Bank has had to adjust to a variety of pressures from its major sponsors, arising both from geopolitical events and from opposition to particular institutional modes of operation.

This leads on to the underlying question of Section IV, which is whether these pressures have brought about a fundamental transformation of attitudes at the Bank. Are we seeing signs of change, or only a change of signs? Recent research on the issues of poverty reduction, governance and conditionality (policy-based and process-based) are discussed in an effort to gauge how far the Bank has moved.

I. Social Knowledge and International Policy Making

That public organizations operate at times as intellectual actors is startling. The role of an international bureaucracy may extend to the collection and dissemination of available knowledge, if this helps it in the discharge of its functional responsibilities. That the production of novel ideas should be one of its functions would come to most people as a surprise. An organization that does such a thing could well be viewed as going into competition with universities, institutes, think tanks and consultancy firms, but without having the necessary advantages, either of human and physical infrastructure or, perhaps more importantly, in terms of the structure of institutional incentives. "Universities and think-tanks can out-perform the UN in research", according to Edwards (1999:180), because they are "without the combination of high costs and low levels of innovation that characterises organisations lacking both market discipline and social pressures to reform".

In the twentieth century, national governments increasingly became the locus of the creation of economic knowledge. This went beyond the gathering and presentation of economic statistics. Statistics, as the word implies, had long been the province of the state. In the years between the two World Wars, by contrast, some statisticians became unusually inventive, creating new empirical representations of novel economic concepts. In Germany, Ernst Wagemann's theoretical work inspired the Statistical Office to use census data to produce an input-output table, quite independently of Wassily Leontief (Tooze 2001). In the United States (US), Lauchlin Currie and Martin Krost, while on the research staff of the Federal Reserve Board, made pioneering estimates of the effects of government fiscal changes on the national income—as early as 1937–1938 (Barber 1990). These examples could be multiplied. In step with national governments, international organizations moved from statistical collection to the quantification of new economic concepts. The League of Nations moved on from collecting balance of payments statistics in the early 1920s to producing innovative studies of trade and the business cycle in the late 1930s (Endres and Fleming 2002). This transition was undoubtedly hastened after the Great Crash, when it seemed to many that academic economists had little that was useful to contribute to the formation of economic policy.

Yet, the economic justification for the state becoming an intellectual actor was, and is, problematic. Admittedly, knowledge is a public good, and the market, if left to itself, will tend to supply too little of it to achieve maximum welfare. The force of this argument is to justify public intervention to boost investment in new knowledge. However, it does not entail that the new knowledge must be produced in a public sector institution. If individuals tend to underinvest in their health and education, this is not a sufficient justification for setting up public hospitals and state schools, because a better outcome might result from giving private schools and private hospitals public subsidies. Similarly, if knowledge is undersupplied, it might be better for public sector institutions to subsidize its private production, rather than to produce it themselves.

Some international public institutions have, nevertheless, wanted to be intellectual actors, rather than just investors in the production of knowledge. In the field of economic and social development, perhaps the foremost contemporary repository of this ambition is the World Bank. The Bank advances the economic justification that only by producing knowledge in-house can its benefits for the institutions' functional operations be secured (Squire 2000). Partly, it is argued, this is a matter of being able to ensure that outside researchers undertake the research agenda that the institution in question wants them to undertake. Partly it is that, in the absence of in-house champions of specific pieces of research, potentially useful research will not get noticed and will not in fact be used. While there is doubtless some merit in these arguments, they look only to the advantages of doing research in-house, and these advantages always need to be balanced against the potential difficulties.

What, then, are the drawbacks? To answer this question, one must turn from the economics of public goods to the sociology of bureaucracy. Max Weber argued that modern bureaucratic organizations would increasingly replace patrimonial ones. He claimed that they are formally the most rational means of exercising control over human beings, because their goals are set by their sponsors and are implemented by bureaucrats who remain politically neutral. In making this claim for the efficiency of modern bureaucracy, Weber simply assumed that the formal roles assigned to bureaucrats are always congruent with their actual motives and orientations. However, this is not necessarily so: officials may don their organizational masks, but they do not easily or frequently become them (Rudolph and Rudolph 1979). Weber's ideal type needs to be modified to take account of the fact that people inside bureaucracies can rebel against the machine-like expectations of formal rationality.[1] Experience forces us to confront the fact that "defiant bureaucrats" exist, and that they do "engage in behavior that is from the perspective of organizational goals and procedures irrational and dysfunctional" (Rudolph and Rudolph 1979:209).

We propose a modified Weberian theory of bureaucracy. It asserts that, inside all public organizations, authority stands in potential tension with power. Authority is hierarchical, and is formally delegated from the pinnacle of the president (or other like role) downward in a very precise manner. Power—the ability to make others act as one requires—may be distributed differently. It will be exercised from above only to the extent that those in authority at the top have the resources of power—personal leadership skills, access to information, incentives and sanctions—with which to motivate, control and appropriate the efforts of those below them in the hierarchy. This potential tension sets the scene for the outbreak of power struggles between

[1] Weber believed that the specific nature of bureaucracy "develops the more perfectly the more bureaucracy is 'dehumanised', the more completely it succeeds in eliminating from official business love, hatred, and all purely personal, irrational, and emotional elements that escape calculation" (Gerth and Mills 1946:215).

superiors and subordinates, as the former seek to conjure up from the latter the activity that will support the goals of the organization, which are derived from those of its sponsors, and as from time to time they meet resistance (Ansari 1986). Maintaining the congruence of power with authority is a quite onerous task that heads of bureaucracies often fail to perform.

This is especially so in international bureaucracies. Here control by sponsors is weaker than in the national case, because the conflicting interests of the multitude of country sponsors permanently dilute it. This is partly a matter of a lesser ability to determine clear and consistent objectives. It is also because divergent interests of sponsors can reduce the resources of power available to those in high authority in international organizations; requirements of geographical balance in recruitment, or the diplomatic consequences of disciplining officials of particular nationalities, deplete the normal armoury of sanctions that high officials can deploy against subordinates who engage in dysfunctional behaviour.

Within an international bureaucracy, the in-house research function presents a special case. Intellectual originality and creativity are achievements that, almost by definition, cannot be commanded, sometimes not even by their authors. Original research, when produced, may turn out to be congruent with the objectives that an international bureaucracy and its sponsors are seeking to fulfil. Yet, it also has the potential to be dissonant with those objectives. In that case, therefore, its authors, because of the peculiar nature of their specialized expertise, run a particularly large risk of becoming, in the course of defending their research procedures and results, "defiant" bureaucrats. The political neutrality required of a Weberian bureaucrat may turn out to be at odds with the intellectual disinterestedness that must discipline the good researcher. Ideally, researchers should have no personal stake in the results of their enquiries. If they are researching, for example, whether trade liberalization does or does not stimulate economic growth, or whether commodity prices are set to rise or fall, they should have no vested interest in reaching a particular conclusion.[2] When the organization that employs them aims to persuade external agents of the truth of certain propositions, and researchers willy-nilly have such a personal stake, this threatens to damage the integrity and quality of their work. Thus, in-house intellectual activity will be constantly in danger of being distorted, to some degree, by the attempts of managers to impose their organizational goals.

International bureaucracies still wield some incentives and sanctions, even if to a lesser degree than national bureaucracies. International officials who are researchers on political economy resemble their colleagues in that all are wholly dependent on their organization's managers for their material rewards, so they may face disincentives to coming up with results that top managers find unhelpful to their goals, even if the results that they produce are intellectually sound. Similarly, they may face incentives to certify propositions as valid knowledge, even if they are not, when their top managers find it helpful to their goals that that be done. The independence that is the only safeguard for intellectual honesty will be lacking, when the internal power struggle favours the top management. This does not of course imply that intellectual honesty must always be lacking: it may or may not turn out to be consistent with an international organization's goals.

However, the significance of this potential drawback is amplified as soon as we recognize that international public institutions do indeed at times identify with, and defend, certain doctrines of political economy. They are often required to do so by the governments that are their members and their main financial sponsors. The defence of an organization's core doctrines can be managed in several different ways. One is to design the research agenda in a way likely to support the consensus, for example, by not devoting resources to researching topics that are regarded as marginal, or potentially antagonistic to it. Another is for top managers to vet carefully high-profile research output, and to edit out unwanted messages.[3] Another is the self-

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2 In defining the criteria of the "good researcher", we do not suggest that bad researchers, who fail to meet these criteria, cannot be found in academia as well as elsewhere. Our point is that good researchers face an additional hazard in the bureaucratic context.

3 For a detailed case study of such vetting at the World Bank, see Wade (1996).

censorship of the researchers, who can usually guess where the limits of acceptability lie. Even when top managers try to avoid shooting the messengers that bear bad, but accurate, tidings, it will not be every staff member who will venture to put that restraint to the test.

II. Institutional Constraints on Creative Research

In its early years, the World Bank defended the doctrine of sound finance and had little use for its few economists.[4] Even this commitment to a limited doctrine elicited some assertion of editorial control, however. An early example of the Bank's tendency to control occurred in 1955, when it held up the publication of Jan Tinbergen's *The Design of Development*, which it had commissioned, for three years because the then president objected to Tinbergen's support for a mixed private and public economy.[5]

The breaking of the Latin American debt crisis in 1982 marked the adoption by the Bank of a much stronger and more elaborated doctrinal stance. At the behest of the new conservative governments of Britain, the United States and West Germany, the Bank propagated to developing countries a set of neoliberal economic policies that became characterized as the Washington consensus (see Williamson 1990). This policy set was supposed to represent the "sensible economic policies" that developing countries would have to implement in order to restart the flow of commercial lending that had so abruptly ceased. It established the more extensive doctrinal boundaries that were defended by the Bank through the 1980s.

That the Bank's research was very clearly subservient to its management's objectives was illustrated by its research on the sustainability of debt levels and the debt crisis. Compared with the academic literature of the day (see Eaton and Gersovitz 1981), World Bank researchers made more optimistic predictions in 1981 about the future availability of private capital flows to already indebted developing countries. In this, they supported the view of the Bank's then president, Robert McNamara, that the debt problem was manageable and would not obstruct economic growth. Moreover, as the debt crisis worsened, the Bank fell well behind academic opinion on the need for debt relief. The Bank's chief economist, Stanley Fischer, candidly acknowledged the reasons for this.

> It was clear to the participants in this…conference at the beginning of 1989, as it had been clear to many much earlier, that growth in the debtor countries would not return without debt relief. But the official agencies operate on the basis of an agreed upon strategy, and none of them could openly confront the existing strategy without having an alternative to put in place. And to propose such an alternative would have required agreement among the major shareholders of the institutions. So long as the United States was not willing to move, the IFIs [international financial institutions] were not free to speak. (Diwan and Husain 1989, cited in Armendariz and Ferreira 1995:226).

An anecdote from the 1980s confirms both the existence of this constraint, and how "defiant bureaucrats" tried to circumvent its effects. Gerald K. Helleiner has recalled how

> a UN professional group, the one on African finance and debt, was put together with the full cooperation of a vice-president of the World Bank, precisely because he could not, within his constraints, get from the Bank a strong public declaration of the need to act on African debt. ... We decided that...an expert group [of the UN] including a private banker or two, was the way to go. And the World Bank man, Kim Jaycox, was really supportive and

4 In its early years, the Bank's most distinguished economist was Paul Rosenstein-Rodan, who had contributed one of the seminal works of the new subdiscipline of development economics in 1943 (see Rosenstein-Rodan 1943). His sojourn at the Bank between 1947 and 1954 was a contentious and unhappy one, and after many conflicts with the management, he left for academic life at the Massachusetts Institute of Technology.

5 See Tinbergen (1958), whose account of the publication delay, and the reasons for it, is given in Magnus and Morgan (1987).

> told us that he could not do this and that he could not get a Bank study done that would say what an independent group could say that needed to be said.[6]

The short and controversial career of Joseph Stiglitz as chief economist of the World Bank from 1997 to January 2000 provides further evidence of the constraints on Bank research.[7] To his credit, Stiglitz wanted to broaden the original Washington consensus of 10 policy thrusts—fiscal and exchange rate reform, trade and financial liberalization, privatization and deregulation, among others—by adding improved financial sector regulation, competition policy and technology transfer policies. He also suggested multiplying the objectives of development policy by adding a sustainable environment, democratization and a more egalitarian income and asset distribution (Stiglitz 2001). However, he did not then question the idea that it was the Bank's job to promote a consensus of some kind on development policy; he merely wanted to move away from a narrow version of neoliberalism. He also began an internal campaign against the deflationary policies recommended by the International Monetary Fund (IMF) during the Asian financial crisis.

The US Treasury Department under Laurence Summers was unhappy about these intellectual ambitions. He made Stiglitz's departure from the Bank a condition of US support for James Wolfensohn's second term as president. Stiglitz duly submitted his resignation in November 1999.[8] After leaving the Bank, however, Stiglitz moved from modifying the Washington consensus to rejecting outright the Bank's drive to promulgate any package of development policy doctrines.

> Opposition to globalisation in many parts of the world is not to globalisation per se...but to the particular set of doctrines, the Washington Consensus policies that the international financial institutions have imposed. *And it is not just opposition to the policies themselves, but to the notion that there is a single set of policies that is right.* This notion flies in the face of both economics, which emphasizes the notion of trade-offs, and of ordinary common sense (Stiglitz 2002:221, with emphasis added).

Stiglitz's postresignation reversal suggests that, while in the Bank, he was constrained to agree that the role of the Bank is to provide the developing world with "the single set of policies that is right". It seems that even defiant bureaucrats, or "rebels within", cannot escape from the Bank's institutional imperative to preach a doctrine, and that the United States will act to reinforce this imperative when it thinks it is under threat. Kaushik Basu, reviewing Stiglitz's recent book, confessed to being persuaded that in subtle ways the big powers do indeed take control of the major international organizations, using them to defend ideas and policies compatible with their interests. As he went on to explain:

> This is not hard because...[while] economics has had some major successes [it] remains woefully inadequate on many of the most important issues that confront policy makers. In these latter areas, it is easy for myths to develop. By repeating certain propositions sufficiently often, they can be made to sound like facts, and given the credibility of economics in other areas, most people treat them as facts. This creates scope for subversion, feeding people with 'facts' that are convenient to some (Basu 2003:892–893).

Thus, to insights from the sociology of bureaucracy, one should also add insights from the sociology of knowledge. We need also to understand how powerful institutions are able to establish and sustain the hegemony of dominant ideas. As well as modifying Weber, we need to absorb the teachings of Gramsci.

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[6] Interview of Gerald K. Helleiner by Tom Weiss for the UN Intellectual History Project, Toronto, 4–5 December 2000, internal UN Intellectual History Project document, p. 45.

[7] See Chang (2001). Stiglitz's own account of his experience in the Bank is given in Stiglitz (2002).

[8] Further US pressure, this time to change the draft of the *World Development Report 2001*, led to the resignation of the report's independent editor-in-chief, Ravi Kanbur, in the following year. These two episodes are chronicled in Wade (2001).

In circumstances of such tight editorial control linked to strategic objectives, it is not surprising that, when the World Bank's role as an intellectual actor was evaluated, little evidence was found for the originality of the ideas directly emanating from it. Even in the area of economics that concerns its own operations most closely, namely the economic appraisal of projects, the Bank did not pioneer new methods.[9] However, despite failure to originate key ideas or methods in development economics, the Bank's power to propagate ideas is well attested in the media and in university graduate-level syllabuses. The Bank has also become "the single most important external source of ideas and advice to developing-country policymakers" (Gavin and Rodrik 1995; see also Stern and Ferreira 1997). The example of the World Bank seems to show that international public organizations can become powerful propagators of ideas, if they invest sufficiently in the mechanisms of intellectual propagation. Yet, it is almost impossible for them, especially when those in high authority in the organization can command the resources of power, also to operate successfully as creative intellectual actors in areas where their managers are already committed to maintaining an economic doctrine.

In this connection, it has been observed that criticisms of the Bank's economic doctrines and policies that academics and NGOs voice in the borrowing countries are often dismissed by the government there. This is because it likes to go along with the Bank's requirements, because of the political material dividends for cooperation. However, these same criticisms are subsequently "discovered" by Bank representatives, and used to make policy corrections. What is demotivating for the local critics is that the Bank cites its "discovery" as evidence of its own ability to produce new ideas and respond creatively to changing circumstances![10]

Comparing economic research in the World Bank with economic research in the United Nations (UN) provides contrasting experiences of the relation between the creation of economic knowledge and managerial control. The UN managers also recruited economists directly into the organization and yet, contrary to the ideal-typical view of bureaucracy, they had greater difficulty than the Bank in establishing managerial control over economic research. The UN's looser editorial control over economic research allowed its economists on occasion to produce creative new ideas that were dysfunctional in terms of the organization's bureaucratic objectives—as in the Prebisch-Singer case, or that of Michal Kalecki (see Toye and Toye 2004:chapters 3 and 5). When, after 1980, the industrial countries built up the World Bank as a counterweight to the UN, the power exercised by its sponsors was related to their capital contributions, which gave a few industrial countries a heavy leverage. The Bank succeeded in pleasing these sponsors and maintained a tight editorial control, but its economic work has not been judged as particularly creative.

The paradox that dysfunctional organizations can be creative in the field of political economy and functional ones can be sterile need not, perhaps, be too disturbing. What is good for organizations—including international ones—cannot be assumed to be good for those who work for them, or for the wider society in which they operate. What is dysfunctional for them may be functional on a broader view. To achieve the compliance of participants with the goals of their organization is not necessarily an unmitigated good. Sometimes conflict within organizations may promote desirable values and legitimate interests on a grander scale. There may be more to life than the triumph of a particular bureaucracy, however elevated.

III. The New Development Agenda

Why have the IFIs shifted the focus of their attention to poverty reduction and the role of the state and other institutions?

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9 It was slow to adopt the discounted cash flow and the shadow pricing techniques, according to the Bank's historians, Mason and Asher (1973).

10 I am grateful to Norman Girvan for this point.

"Reduce poverty" was never one of the 10 precepts of the Washington consensus. Yet, it would be a mistake, if one wants to understand its persuasive force, to ignore the fact that it called for improvements in income distribution as an argument to justify the shrinking of the state. The claim was that a smaller state would be good for growth, and growth would be good for poverty reduction. Also, since poverty is severer in rural areas, and since state economic production and regulation disadvantaged agriculturists and privileged industrialists, a smaller state would tend to reduce inequality in the distribution of income and wealth. The manifesto of the counter-revolution in development was not simply about greater efficiency: it contained a promise of poverty reduction through growth and greater equity as well.[11]

Nevertheless, by the end of the 1980s, the very considerable effort expended on structural adjustment seemed to have distracted attention from the tasks of reducing poverty, let alone income inequality. The willingness to let poverty reduction wait upon increased growth eroded as the growth record of structural adjustment policies was shown to be rather unimpressive. Greater credence was given to the idea that growth itself depended on poverty reduction. It was argued—once again—that better health and education services for the poor would permit the formation of socially desirable human capital that would not otherwise take place, and thus make the economy more productive. These claims could be rationalized by reference to new theories that installed human capital accumulation as the engine of endogenous growth (see Scott 1989; Lucas 1988).

The World Bank (1990) acknowledged the new interest in poverty reduction in its *World Development Report 1990*, which stressed the need to ensure that growth was labour-intensive, and that basic social services were better funded. Enthusiasm for specific social safety nets was markedly less evident. The programme of structural adjustment was by no means abandoned, but it now had to be pursued with a much greater concern for its effects on the level and intensity of poverty. How was this renewed concern for poverty reduction made operational? An IMF–World Bank "concordat" in 1989 established effective—though not formal—cross-conditionality of these institutions' loans. Bank adjustment lending became conditional on a pre-existing IMF programme, and a statement of economic policy for the borrowing country had to be agreed by both institutions. In usual practice, apart from one country government representative on the drafting team, they jointly drafted a Policy Framework Paper (PFP) and the country government would then agree to sign it. This general statement of agreed policies—the PFP—was transformed at the end of the century into a new type of document, the Poverty Reduction Strategy Paper (PRSP). This change of title signalled that the recipient country government was now expected to make a national poverty reduction strategy the centrepiece of its overall development strategy.

The Bank, in promoting this extended version of economic reform in developing countries, still relied on large programme loans carrying conditions about policy changes, conditions reflected in the PFPs, and after 1999—though to a lesser extent—in the PRSPs. However, as well as using loan conditions, the Bank sought the power to persuade on issues of development policy. Hence, it has continued to invest heavily in an intellectual infrastructure. By the end of the 1980s, the Bank employed no less than 800 economists, and had a research budget of $25 million a year, resources that dwarf those of any university department (Stern and Ferreira 1997). Although the production of publishable research is only one of the functions of its research department, the Bank now conducts what is almost certainly the largest single publication programme on development issues in the world. The Bank's influential flagship report, the annual *World Development Report*, inaugurated in 1978, has been credibly claimed as the most widely read document in development economics. In the 1980s, the Bank began to publish more research through two new house journals, *The World Bank Economic Review* and *The World Bank Research Observer*. The Bank has also become a major provider of statistical data, including regular published series such as the *World Debt Tables*, and data from household and firm surveys.

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[11] These issues are further explored in Toye (1993).

From the early 1980s, the Bank has used this augmented intellectual armoury to minimize any doubts in client countries about how "sensible" the West's approach to the debt crisis really was, and about the neoliberal content of its loan policy conditions. Inside the Bank, greater pressure for doctrinal conformity caused mixed reactions, and key figures on the research staff disagreed on the merits of research being subordinated to the operational requirements of structural adjustment.

> The early 1980s was considered to be full of the excitement of structural adjustment, but it was not here that the research side of the Bank was seen to lead the way. A switch of interest toward markets and prices was welcomed by many. However, some spoke of a decline in the research atmosphere, of a degree of intolerance and of a requirement to toe the "party line". Others saw a rescue from intellectual tiredness and dead ends (Stern and Ferreira 1997:598).

Since 1980, the pressure of operational needs has had the inevitable effect of dampening in-house intellectual creativity and boosting research that serves the Bank's current persuasive purposes. Attempts to evaluate the quality of the Bank's research and publication activities have noted that their extensive influence on policy makers and educators has been matched by the modest extent of their intellectual innovation. Even Bank insiders do not claim to have played a major role in the economics profession, and many are frustrated by the lack of a good atmosphere for serious research. Some of them do, however, claim to have "produced much more high-quality research than other UN agencies" (Stern and Ferreira 1997:595, footnote 169). This claim may seem plausible, but the more interesting question is how the comparison would look on the basis of equality of research resource endowment.

The Bank's lending portfolio has been increasingly diversified in the 1990s to support a new development agenda that includes not only poverty reduction but also gender equality, popular participation, stronger civil society, improved governance and environmental conservation (see Miller-Adams 1999). One important conditioning factor was major geopolitical change, namely the collapse of the socialist regimes in Eastern Europe and Russia in the early 1990s. The new European Bank for Reconstruction and Development (EBRD) made an explicit political condition for its lending: that borrowing countries should not revert to socialism. Bilateral aid agencies began to insist that developing countries abandon one-party rule, and institute multiparty elections. Although formally the requirement that the World Bank should operate in a non-political manner never changed, the arrival of the EBRD's explicit political conditionality, plus the political pressures applied by the bilateral donors, encouraged the World Bank to move into quasi-political areas of operations. It introduced loan conditionality to a range of quaintly named "governance issues", in addition to its general neoliberal requirement that the state be "rolled back". These included new institutions of state accountability and decentralization, as well as new institutions of civil society to check and balance the power of the state. Behind the old Middle English word of "governance", there clearly lurked very modern dreams of liberal constitution making.

Against this general *zeitgeist* of transition from socialism, a more specific pressure weighed on the Bank. It had already begun to get into political difficulties in the United States in the middle of the 1980s, when several US environmental NGOs attacked Bank-financed projects in Brazil for encouraging environmental damage. They claimed the Bank's procedures for making environmental impact assessments of its projects were inadequate. The Bank gave in under pressure from the US Congress and Treasury and set up an Environment Department in 1987. Then, in 1992, an independent review charged that the Bank had breached its own guidelines for the conditions on which the people displaced by the Narmada dams in India were to be resettled.

In the course of these controversies, the US NGOs demonstrated their ability to harass the Bank by means of well-organized lobbying of the US Congress.[12] The Bank has since put in place new measures of accountability, including an independent inspection panel to make public reports on contentious cases. The ironies of this campaign were that the US NGOs themselves are, for the most part, not publicly accountable; and that the Bank has become more accountable to US politicians, rather than to the politicians of its client countries (Woods 2003).

The power of the NGOs to move the US Congress brought about a fundamental change of political stance at the Bank. Since 1996, when Wolfensohn became president, the Bank has been proactively reaching out to its NGO critics, and shaping its policies to reflect their concerns. Wolfensohn, not wanting the Bank to be so badly wrong-footed again, has pursued this populist approach both in his public rhetoric and in a managerial style that places him at odds with the pre-existing bureaucratic culture of the institution. He has tried to deflect NGO criticism of the Bank by promoting his brainchild, the Comprehensive Development Framework (CDF), a matrix for coordinating all the development activities of a country. Being the guardian of the CDF allows the Bank to adopt a central position in the development process. It is able to provide a diverse range of services—loans, technical assistance, advice—to the entire development community, and yet to identify itself as a development partner and facilitator, instead of as a bunch of arrogant bankers.

Moreover, his choice of new issues for the Bank has tried to pre-empt the opposition of the NGOs. As well as declaring poverty reduction to be the Bank's overriding objective, efforts have been directed to a range of other aims that will find favour with US NGOs—including the strengthening of civil society and the reform of public institutions.

The Bank's concern with governance was strengthened further as evidence built up that its favourite instrument to induce economic reform—policy-conditioned programme lending—was not being as effective as originally believed. The first independent evaluation of the Bank's structural adjustment lending of the 1980s indicated that, owing to incentive problems in its design, compliance with policy change conditions was far from universal, and that compliance was rewarded with pretty small improvements to growth, exports and the trade balance (Mosley et al. 1995). Subsequently, other independent studies using alternative methodologies came to similar conclusions (Killick 1998). By the end of the 1990s, these results had been digested inside the Bank, whose staff followed up with their own studies. Dollar and Svensson (2000) argued that exogenous political economy factors were crucial in determining the success of adjustment loans, and not any of the variables that the Bank was able to alter by its own efforts. They recommended a strategy of "selectivity" in programme lending. The Bank should abandon policy conditions in loans, they advised, and concentrate instead on developing political economy criteria to identify countries willing to implement the kind of reform policies of which the Bank approves (see Collier 2000). The strategy of loan selectivity is an unattractive one for the Bank's management. The alternative strategy, of not merely responding to but trying actively to influence the political economy variables, remained alluring.

The Bank's liberal political aspirations, its willingness to accommodate pressure from the NGOs and its search for policy leverage set the scene when a consortium of NGOs launched the Jubilee 2000 campaign for enhanced debt relief for heavily indebted poor countries (HIPC). This was something that Wolfensohn could only support, so the Bank and the IMF devised the enhanced heavily indebted poor countries (E-HIPC) initiative. Its terms were more liberal than its predecessor's and it carried an implicit target of getting 20 new HIPC countries over the hurdle to benefit by the end of 2000. Since debt relief was intended to be additional to existing aid flows, and since the E-HIPC beneficiaries were countries that had not managed their debt well in the past, the Bank and the IMF felt that they had to insert extra safeguards. This concern was the origin of the PRSPs. Production of an interim PRSP was part of the E-HIPC

12 For an account of these episodes, see Wade (1997).

qualification procedure. The overall aim was to ensure that the additional HIPC resources were used for poverty reduction purposes, and that this could be verified.

IV. Operational Changes

It was intended that the introduction, in late 1999, of the PRSPs for HIPC countries, and the subsequent replacement of the PFPs by PRSPs in other countries, would improve the institutions of poverty reduction policy making in developing countries. It was assumed that the indirect effect would be to improve actual poverty reduction policies. The aim was a new, more inclusive national process of poverty policy formation, which would create a greater national ownership of, and commitment to, the antipoverty policies that emerge from the process. This was recognition by the Bank that lack of ownership and commitment had been an obstacle to economic reform in the past, and that the device of policy-based lending had not overcome this obstacle. The PRSPs shifted the locus of conditionality away from specific policies and toward processes of policy formation and the public institutions that sustain them. What has been the result?

The most substantial evaluation to date, done for the Strategic Partnership with Africa (SPA), covers the seven African countries of Benin, Kenya, Malawi, Mali, Mozambique, Rwanda and Tanzania (Booth 2003). It finds that compliance with the required PRSP process was prompt and cooperative and not entirely driven by the prospect of the anticipated E-HIPC resources windfall. It notes that primary responsibility for the national poverty reduction strategy shifted to the Ministry of Finance, bringing it closer to central decision making on the budget. Consultations with actors from civil society have taken place, although public understanding of the PRSP process remains narrow and shallow. The realism of countries' national poverty reduction strategies was found to be greater where more progress had already been made in establishing a comprehensive, transparent and outcome-oriented medium-term expenditure plan. Without such progress, the PRSP process could easily run into the sand.

Whether all of the above adds up to a vindication of the PRSP process as a better way of securing national commitment to poverty reduction is not yet clear. On the whole, the degree of national political commitment has been less than the degree of technocratic commitment. This will be problematic if complementary reforms in public financial management are vital to the success of the PRSP process (Booth 2003). Consultations with citizens have not been merely formal, but have also generated significant changes to the full PRSPs. Nevertheless, the hope that consultation of this kind will become institutionalized, and will deepen high-level political commitment to poverty reduction, remains no more than a hope in the seven countries that the SPA report surveyed.

At the same time, the hope that the IFIs and other aid donors would reduce their demands for consultations with the government, as country-led reviews of performance developed, has so far not been realized. If anything, the problem of process overload has grown, as joint reviews of the PRSP process are added to existing uncoordinated donor review requirements. Very little, if any, pooling or streamlining of reporting and evaluation requirements has been achieved.

While the development of a new process is vital for local institution building and for reinvigorating the aid relationship, poverty reduction depends not just on a better planning process, but also on a sound causal analysis of how poverty can be reduced. Unfortunately, it is not clear that this is yet forthcoming, from either side of the aid partnership. On the recipient side, taking the views of civil society seriously may lead to the compilation of a shopping list of demands rather than a credible plan for reducing poverty (Booth 2003). At the same time, prior and possibly also non-transparent IFI loan conditions may limit the scope for arriving at an integrated poverty reduction strategy (Hewitt 2003).

On the donor side, pressure from the NGOs has led the Bank to propagate the idea that poverty reduction is a matter of expanding public expenditure on social services, to the neglect of wider growth and development priorities (Killick 2004). While well-functioning education and health care services will reduce poverty if the poor have access to them, changing budget allocations is hardly sufficient to make social services function well, or to open them to the poor. Moreover, the most dramatic reductions in poverty have been associated with broad-based economic growth. Some aid donors, including the World Bank, are now promoting work on the issue of pro-poor growth. Why are certain growth episodes more successful in reducing poverty per unit of growth? What are the macro-micro linkages that make growth more or less effective in reducing poverty? Is it the particular sector in which most of the growth occurs (agriculture), or the particular functional beneficiary of growth (labour)? What is the contribution of public expenditure, and of the political economy factors that influence public spending decisions? Research is currently being undertaken on these questions in an attempt to provide a better understanding of policies that will generate pro-poor growth. However, there must be a real doubt about how results from this research will be received, and how much they will influence policy, should they go against the conventional wisdom that the NGOs have persuaded the members and staff of the Bank and the IMF to endorse.

Has the advent of the PRSPs been part of a larger change in aid modalities? Has the IFIs' desire to enhance the local ownership of reform programmes led them to reduce their use of policy conditionality, especially in the light of the studies cited earlier that concluded that it is a weak instrument?

This would not seem to be the case. First, as noted, the E-HIPC countries are faced with process conditionality that does not fully substitute for the policy change conditions that may be in their other loan agreements with the IFIs. Although the potential for such a substitution is there, it is unclear how far it has actually been realized. Second, some assiduous bean counting shows that the average number of policy change conditions has fallen in Bank agreements—from 58 (1988–1992) to 36 (1998–2000). Also, it is likely that the average number of "structural" conditions in IMF agreements, which rose from two (1987) to 14 (1997–1999), has since fallen. Logic tells us, however, that fewer conditions make policy conditionality more effective, not less, and it is the non-binding conditions where the reduction is greatest. The probability that some of the dropped IMF conditions have been picked up and adopted by the Bank also suggests that the design of conditionality is being rationalized, rather than slowly abandoned. So do the indicators that show some improvement in compliance with conditions in the 1990s compared with the 1980s (Killick 2004).

What does the debate about conditionality tell us about the use of knowledge in the IFIs? Killick (2004:17) sees "a large apparent gap between what the balance of available evidence tells us about the efficacy of conditionality as a way of securing desired policies and the continuing policies and practices" of the IFIs. He attributes this gap to the representatives of major shareholders remaining unaware of, or unconvinced by the evidence, and to the managers of the institutions therefore being unwilling to change. This conclusion would sit very conveniently with the earlier history, summarized above, of the Bank being in the rearguard of academic opinion because of constraining institutional objectives. This would, however, be rather too neat a conclusion.

What the academic evidence showed was that the initial design of the policy conditionality mechanism was flawed, and it explained the reasons for the flaws. Some of them were remediable. Much later, the Bank insiders claimed to have shown econometrically that that conditionality was a total failure. They concluded that it should be wholly abandoned and replaced by selectivity based on political economy variables. That conclusion and policy implication can, however, be academically challenged. The Dollar and Svensson (2000) paper, for example, finesses the whole question of compliance with policy conditions by using as its explicandum an indicator that does not distinguish between compliance and programme success. It also treats political economy variables as wholly exogenous, rather than as factors that differ depending on initial macroeconomic conditions, the design quality of the adjustment programme and its initial short-run impact (Mosley et al. 2003). Thus, although it is certainly true that institutional imperatives would make the adoption of selectivity a practical challenge for the Bank, they are not the only source of inhibition. On this occasion, there are also intellectual matters that should make the Bank pause, in particular, the need for more thought about the analytical rationale of the proposed policy change.

Returning to the question of how far the Bank has moved in the last decade, one may conclude that, not very surprisingly, the rhetoric of change has moved faster than the reality. Nevertheless, the Bank has taken significant new policy initiatives, in an attempt to respond to shortcomings in past attempts to instigate economic reform policies. The requirement that borrowers develop a national poverty reduction strategy, and do so in consultation with civil society, was a bold move that has met with limited success so far. At the same time, the advent of process conditionality does not seem to have replaced, or even much reduced, the use of policy-based conditionality.

However, the question remains: should it do so? The case that the instrument of conditionality cannot be reformed is far from being proven, despite the claims of Bank insiders. Yet, one would hesitate to argue for using a more effective conditionality unless the policies to which it would be attached gave credible hope of succeeding. For all the talk of the Bank becoming a knowledge bank, much still has to be discovered about appropriate poverty reduction policies. An optimist would say that the Bank is fully engaged on the search for more appropriate policies. A pessimist might fear that the Bank's populist turn and its greater responsiveness to sections of civil society have not improved the intellectual quality of this debate, and may, in fact, have worsened it.

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