

“CAPITALISM WITH A HUMAN FACE” - I

Wolfensohn’s World Bank

By

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In earlier columns this year (on the corporation, on freedom and liberty, and on rights talk) I have questioned various aspects of the post modernist, neo-socialist agenda which go into the potpourri behind the slogan ‘capitalism with a human face’. I have also questioned in an earlier column the claims of various NGO’s to be speaking on behalf of an ‘international civil society’ which this slogan is supposedly to subserve. Not surprisingly, the current left wing coalition governing India has also adopted a variant of this slogan. But it is in the change in the policy advice proffered by the supposedly leading economic development institution, the World Bank under the presidency of James Wolfensohn, where this mindless politically correct slogan has had its most insidious effects.

The battle between the ‘old’ World Bank policy stance on development summarized by the so-called “Washington Consensus” and its new touchy-feely agenda based on its embrace of the NGO’s “civil society’ agenda, came to a head with the World Bank’s *World Development Report 2000/01: Attacking Poverty*. This created a fierce storm between Joseph Stiglitz, Wolfensohn’s chief economist- representing the ‘new’-, and the IMF with its First Deputy Managing Director, Stanley Fischer, and the US Treasury with its Deputy Secretary, Lawrence Summers- representing the ‘old’. The report’s chief author Ravi Kanbur has perceptively outlined the issues separating the two sides (in *World Development*, vol.29,no.4, 2001), which he has labeled the ‘finance ministry’ and ‘civil society’ views. The former group includes finance ministries around the world, economic analysts, the economic policy managers in the IFIs, the international financial press, and most mainstream economists. The second group consists of officials of the NGO’s, the UN specialized agencies, aid ministries in the North and social sector ministries in the South, and non-economist academics. So, clearly the former groups consists of the professionals in the economic development business, the second of the self-serving and the uninformed, with their own special, often, ideological agendas.

What are the issues separating them? They all concern the so-called “Washington Consensus”, the classical liberal package of economic policies which as this column has repeatedly stressed has the capacity to eliminate world poverty through the globalization it promotes. The ‘finance ministry’ types are in favour, the ‘civil society’ ones are against. Their differences arise says Kanbur because of disagreements about aggregation, time horizons, and market structure and power.

On aggregation, while the finance ministry views are based on the type of aggregate statistics discussed in earlier columns on the changing incidence of poverty, the civil society view is concerned much more with the changes in poverty levels of much smaller groups, regions, villages etc. For a ground level NGO, Kanbur says, even though the incidence of poverty has declined :”If the number of people turning up at soup kitchens, the number of indigents who have to be provided shelter, the number of street children increases, then those who work in these organizations, quite rightly from their perspective argue that poverty has gone up”. But, the whole purpose of economic analysis and measurements is to go beyond these

local impressions, and see what is happening to the whole.

On the time horizon, Kanbur states, 'civil society' is concerned with the short run effects of policies, the 'finance ministry' economists with the medium term. The economists are surely right, as the effects of any policy take time to work themselves out. All economic policy change must lead to gainers and losers in the short term. But, if in the medium term, when the necessary adjustments have been made, the change in policy leads to everyone gaining, should one concentrate merely on the short term pain and forget the long term gains? For the short term losers every economist has advocated social safety nets to alleviate this conjunctural poverty. (see Lal-Myint: *The Political Economy of Poverty, Equity and Growth*). But, if the policy is sound we would expect everyone to be better off once the adjustments to the new economic circumstances have been made.

However, these social safety nets do not need to be public ones. For, human beings have known for millennia that change is ubiquitous and have found numerous ways of insuring against its vagaries- the most important being through the family. Private inter and intra-household transfers provide the major social safety nets in many developing countries including India. Where these private social safety nets do not exist or are weak, there is clearly a case for public safety nets. But these require an efficient and functioning government. The dismal record of India's public poverty alleviation programs shows that this requirement cannot be assumed to be present.

The third area of disagreement concerning market structure and power reflects an old complaint about capitalism. Many dirigiste economists have joined in- not least Joseph Stiglitz- recommending smart government interventions on the basis of their *theoretical* deductions. But, as I have argued in previous columns, these are of little use in designing policy in the real world.

Thus, though Kanbur makes a plea for understanding and mediation between the 'finance ministry' and 'civil society' types, this is like asking a scientist who has through measurement and analysis found the earth is round to take account of the views of the man who sees and knows it is flat. In this purported dialogue between the deaf, what the proponents of 'civil society' and their acolytes at the World Bank need is a hearing aid.

Anne Krueger - a former Vice President for Research at the Bank- noted in 1998 ("Whither the World Bank and the IMF?", *Journal of Economic Literature*) that, with the opening up of world capital markets to most developing countries outside Africa, the World Bank faced three choices : (a) continue to be a development institution, focusing only on poor countries and graduating the middle-income countries; (b) continue to operate in all developing countries, but focus on 'soft issues' like women's rights, preservation of the environment, labour standards, and the embrace of NGO's; (c) to close down. No bureaucrat wants the first or third alternative, as it means losing power, prestige and not least large tax- free salaries. Wolfensohn, understandably chose the second alternative.

But it is unviable. Its championing of 'civil society leads to supporting highly contentious issues on which there is limited agreement about either ends or means. While on issues like labor standards - which Wolfensohn's Bank has made a requirement for MIGA- they are not only rejected by developing countries, but rightly so for going against the development objective of alleviating poverty which the World Bank till Wolfensohn had rightly and not merely rhetorically espoused. This leaves only the third of Krueger's options for the future of the World Bank. It should be shut down.

