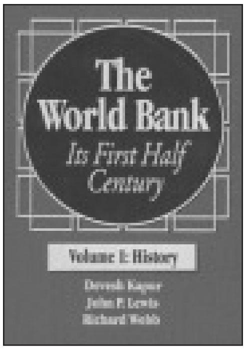
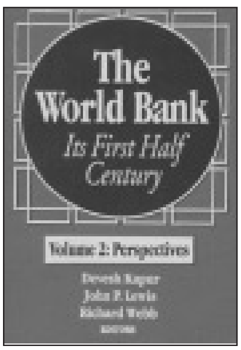




Devesh Kapur, John P. Lewis, and Richard Webb

The World Bank

Its First Half Century

Brookings Institution, Washington, 2 vols. (*Volume 1: History* (xviii + 1275 pp.); *Volume 2: Perspectives* (xviii + 766 pp.)), $79.95 each volume or $159.90 for both (cloth).

What is the World Bank? It turns out that knowledgeable and serious people have been asking that question ever since the Bank was conceived at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire in 1944. The first attempt at an answer is still the most famous, and in some ways the best. It came at the end of the three-week conference, in which delegates from 44 countries labored to create the Bank and the IMF as the two great pillars of the postwar international economic system. The head of the British delegation, John Maynard Keynes, explained the difference between the two proposed institutions with characteristic irony. "The Bank," he is said to have remarked, "is a fund, and the Fund is a bank." Behind the bitter mordancy of the remark was a sense that the delegates had failed to define the Bank's mandate and had left the door open to the vagaries of future shifts in the political winds. As Keynes' biographer, Roy Harrod, later observed, the "biggest question at issue was never fully discussed, namely, whether the Bank should be a sound conservative institution on normal lines, or depart from orthodox caution in the direction of greater venturesomeness."

The question remains open today. Is the International Bank for Reconstruction and Development (the Bank's full and proper name) to be regarded primarily as a bank, or as an agency for economic development? If faced with a challenge that would call for it to finance risky and expensive programs that might make a real difference for growth in developing countries but that might threaten the excellence of its credit rating in the world's bond markets, where would the Bank draw the line? What does one make of a bank that declares its "overarching objective" to be "the fight against poverty"? What does one make of a development agency that has had to struggle with "unseemly high profits" from its loans? No answers to such questions could ever be definitive, and a strength of this new history is its thoughtful attempt merely to put them in perspective.

During the first quarter-century of the Bank's existence, its main task was to finance specific capital investment projects, most often for the development (or reconstruction) of public sector infrastructure: highly visible projects such as hydroelectric dams, roads, and railways. To finance this activity, the Bank had to supplement its meager paid-in capital by borrowing in private capital markets. By 1959, when two-thirds of the Bank's resources were from operations and borrowings, the Bank's bonds were awarded a triple-A market rating. Getting, and then retaining, that standing became an essential preoccupation of the staff. Without a top bond rating, the Bank could not have raised enough capital on favorable terms to become a leading lender for economic development. Becoming a major bank and succeeding as a development agency were not in conflict.

A surprising finding in this history is that the period of greatest growth, and the beginning of great change, in the Bank came in the 1960s before the arrival of Robert McNamara. By then, the Bank was seriously questioning its emphasis on project lending. Investment in large-scale projects was not necessarily the best use of either the Bank's money or borrowers' scarce resources. Moreover, there was increasing concern that Bank loans enabled countries to finance projects they would have undertaken anyway and use the additional money to increase spending however they wished. The Bank therefore began to give greater emphasis in its appraisals to countries' overall investment programs and to the strength of their macroeconomic policies. In the process, the institution began to look less like a traditional bank.

An even greater force for change was the creation in 1960 of the International Development Association (IDA) within the World Bank. IDA "breached the institutional walls, bringing the Bank face to face with a redefined, revitalized development mission, now charged with political urgency, a larger cast of characters, and a strong association with poverty" (p. 153). The Bank was still a bank, but it now had a soft-loan window that imposed a "schizophrenia" that "settled in as a permanent feature of the institution" (p. 173). Even apart from IDA, the Bank began shifting its focus and its money into softer fields such as agriculture and education reform, where development gains were potentially large but difficult to quantify.

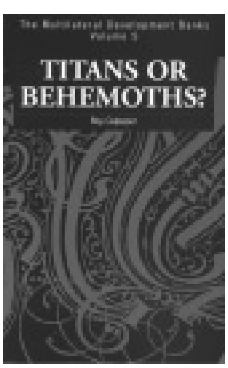
McNamara took over as President of the Bank in 1968 and immediately accelerated the shift toward poverty reduction as the top priority. That shift, or rather that cyclical swing, culminated a decade later in a McNamara-led drive to lend for the provision of society's "basic needs." The Bank was looking less and less like an extension of Wall Street, but it would soon be snapped back toward a more traditional approach by the Thatcher-Reagan revolution of the 1980s. When the Bank "rededicated" itself to the eradication of world poverty in the late 1980s, its focus shifted further. No longer did that term mean just reducing poverty by stimulating economic growth. It now included the direct alleviation of poverty by redirecting spending toward lower-income and other disadvantaged groups. The authors take this compelling story almost up to the present, stopping at the end of the presidency of Lewis Preston, owing to his untimely death, in 1995.

Proliferation of goals and tasks, and the consequent vacillation over priorities form only one strand in the complex tapestry of the history of the World Bank, but it has provided the team of Devesh Kapur, John P. Lewis, and Richard Webb with a unifying theme. Lewis (a Princeton University historian) and Webb (a former governor of the central bank of Peru) began working on this book in 1989. Although an earlier history of the Bank through 1971 was of similar scope (Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods;* Brookings Institution, 1973), Lewis and Webb made the daunting choice to begin from the beginning. By discussing the full evolution of the Bank, they are able to explain how the institution's murky origins led it to follow a bifurcated path and ultimately to become a nearly unmanageable behemoth. Along the way, they acquired Kapur (then a doctoral student at Princeton and initially a research assistant on this project) as a third author and divided the writing so that groups of chapters have different authorship. Chapters in the second volume focus, as does one chapter in the first volume, on distinct topics, with each written by an invited expert. The complete work thus has 18 authors in all, from nearly as many countries.

Did this history, like its subject, spin out of control, lose its focus, and become unmanageable? It suffers from repetitiveness, and the writing ranges from predominantly lucid to occasionally turgid. Nonetheless, although most readers will find themselves wishing it were shorter, the book stays focused enough to make its main points firmly and even succinctly. Perhaps its most remarkable achievement is that it maintains a sense of balance throughout. It gives a clear sense of the strengths and weaknesses of each of the Bank's first eight Presidents, but it does not endorse the conventional wisdom that the history of the Bank is essentially a history of its leaders (on which, see Jochen Kraske and others, *Bankers with a Mission: The Presidents of the World Bank, 1946–91*, Oxford University Press, 1996). World events and the evolution of development economics play more significant and lasting roles in this story.

Working independently from the Bank but with access to its staff and its archives, the authors freely criticize the Bank's weaknesses but do not hesitate to defend it from ill-considered popular criticism. Discussing the Bank's own internal assessment that a large minority of projects supported by Bank loans had failed to perform as expected, the authors conclude that the record is not as damning as most observers have thought. "The Bank's lending effort was really the equivalent of venture capital in economic development. . . . For a venture capitalist, a record of two out of three is admirable" (p. 45). The sad story of the seemingly endless reorganizing of the past decade is told with depressing exactitude in the book's final chapter, and the authors conclude their tale of the Bank's "institutional identity" on a cautionary note. "During its first fifty years, . . . the institution's dominant characteristic was continuity." What the Bank needs for the next half century, in their view, is not a retreat from the changes registered so far, nor a fundamentally new direction, but a "policy of self-restraint" to maintain that continuity.

James M. Boughton



Roy Culpeper

Titans or Behemoths?

The Multilateral Development Banks, Volume 5

Intermediate Technology Publications, London, 1997, xx + 189 pp., £15.95 (cloth); £12.95 (paper).

In 1991, the North-South Institute initiated a survey of multilateral development banks. The survey's overarching theme was development effectiveness, and the original intent was to fill a gap in the literature of international development finance by concentrating on the regional banks. Thus, the first four volumes in the series examined the workings of the African, Asian, Caribbean, and Inter-American banks.

By the time Roy Culpeper, leader of the project, attempted a synthesis, the fiftieth anniversary of the Bretton Woods institutions had given rise to unprecedented public interest in the future of the World Bank. Also, a new multilateral development bank had come into existence to facilitate the transition of Eastern Europe and the former Soviet Union from plan to market. Appropriately, Culpeper decided to round out and update the multilateral development bank story. Thus, the fifth and last volume of the series gives considerable space to the World Bank—"mother of all multilateral development banks"—as well as to the new kid on the block, the European Bank for Reconstruction and Development.

Like its predecessors, the overview volume concentrates on operational issues, thus complementing Percy Mistry's review of the financial structures, policies, and practices of multilateral development banks, *Multilateral Development Banks: An Assessment of Their Financial Structures, Policies, and Practices*, published in 1995. It differs from much of the fiftieth anniversary literature in its delicate sense of balance and coverage of the relationships among the banks and of their efficacy "as a system." To be sure, the 1996 Joint Development Committee Task Force report on multilateral development banks, to which Culpeper contributed, covered some of this ground, but *Titans or Behemoths?* is far better documented and will reach a broader audience.

Culpeper is at his best in weighing the evidence on the multilateral development banks as agents of change and development cooperation. He appropriately highlights the need for the banks to face up to the multilateral debt challenge. His assessment of the banks' operational achievements and cultural foibles is sound. So is his appreciation of the context within which each regional development bank has evolved and its distinctive assets vis-à-vis the Washington-based "big brother."

On the one hand, according to Culpeper, the multilateral banks are no longer the titans of the development business given the advent of a "more powerful race of gods—the financial markets." On the other hand, they can avoid becoming the "behemoths" portrayed by their radical critics and have acquired "some unique strengths and advantages that are worth preserving and building upon." By adapting to a changing world, the multilateral development banks, along with the IMF, can yet help bring about a more humane international order.

"By adapting to a changing world, the multilateral development banks, along with the IMF, can yet help bring about a more humane international order."

Readers of *Finance & Development* will be familiar with the change agenda sketched in *Titans or Behemoths?* It has been adopted by the World Bank and most other multilateral development banks—rededication to the central mandate of poverty reduction; improved portfolio management; decentralization of operations to the field; greater transparency and participation in the design of country assistance strategies; harmonization of evaluation methods; and so on.

Crafted with objectivity and written with grace, *Titans or Behemoths?* is bound to become an indispensable reference source for students of multilateral development finance. But as a road map for the future, the book falls short. Concentrating on the multilateral development banks as project delivery mechanisms, it fails to highlight their potential contribution to knowledge management, development networking, or systemic policy reform. Viewing operational quality largely from an investment project portfolio perspective, the book does not capture the urgency of diversifying the banks' toolkit.

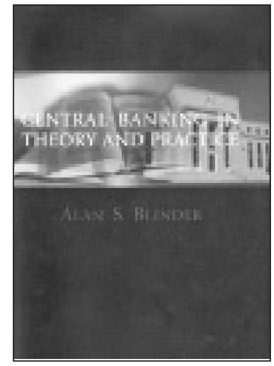
Reliant on traditional aid effectiveness concepts, *Titan or Behemoths?* fails to address issues of fungibility or selectivity and does not identify the need for multilateral development banks' evaluators to shift the unit of account to a higher plane—country programs and thematic policies. The core concept of the book—"competitive pluralism"—has been influential. But it has favored the status quo in multilateral development bank relations and may have retarded progress toward global strategic alliances capable of delivering poverty reduction results commensurate with the expectations of the development community.

Robert Picciotto

Central banking, long a specialized, esoteric subject, has in recent years experienced a wave of intense and sustained interest. This is clear from the plethora of articles and books that have been devoted to central banking, central banks, and even central bankers in the last decade or so. To this growing body of literature, Alan Blinder has now added a little gem entitled *Central Banking in Theory and Practice*, which grew out of two Marshall lectures he delivered in Cambridge in 1995 that developed subsequently into three Robbins lectures he gave at the London School of Economics.

This short, well-written book covers some of the most relevant subjects in central banking in a most persuasive, yet rigorous way. Even if it can be argued that the focus of the book is narrow—it does not cover bank supervision and management of payment systems—this does not detract from its merits as an exceptionally accessible analysis of monetary policy.

Blinder discusses in the first lecture the challenge confronted by central bankers in the implementation of the classical instruments-targets approach to monetary policy and the various real and apparent trade-offs it entails. His treatment of the rudiments of the approach, his handling of uncertainty, and his discussion of the issue of the lag in the effects of policy exhibit remarkable depth in their very simplicity. Even on subjects of a controversial nature, such as whether monetary policy actions should be



Alan S. Blinder

Central Banking in Theory and Practice

MIT Press, Cambridge, Massachusetts, 1998, xiv + 92 pp., $20 (cloth).

symmetric when a country faces the threat of inflation or of unemployment (Blinder believes they should be, but I would contest this), the presentation is balanced and fair.

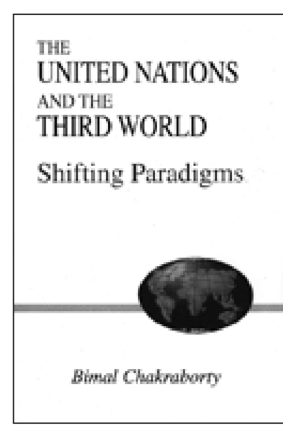
In the second lecture, Blinder deals with the choice and use of a monetary policy instrument. With great skill, he covers the perennial debate between rules and discretion, and examines the pros and cons of monetary versus interest rate targeting. In the process, Blinder refers to outcome-based rules, like inflation or nominal GDP growth, noting that they are not rules, but aims that require much discretion. He also discusses the "solutions" to the inflationary bias in monetary policy (reputation, principal-agent contracts, and conservative central bankers) in a compact, yet cogent fashion.

The third and last lecture focuses on the issue of central bank independence, on which much has been written and which represents an institutional feature of monetary policy management that has gathered consensus and, consequently, growing momentum in many countries. Blinder brings forth here all the relevant dimensions of the concept—credibility, democracy, and accountability—and also discusses its linkages to market forces. He warns that following the market "may produce rather poor monetary policy." But he falls appropriately short of arguing that markets can be ignored. I would have argued that there are circumstances when policy should "lead" the markets (that is, pursue the preemptive strategy Blinder himself advocates in his first lecture), such as when there are signals that inflation is on the rise. And there are circumstances in which policy should "follow" the markets (that is, avoid the preemptive strike strategy), such as when there are signals that inflation is on the decline. Preemptive action when inflation threatens to rise is unlikely to mislead market agents. In contrast, when indications are that inflationary pressure is receding, it would be best for policy to await a signal that markets have in fact recognized this trend, if only to avoid misinterpretations of policy intent.

Blinder also poses a most interesting question that inevitably arises with arguments for central bank independence. Those arguments, in the author's own words, "apply just as well to many other aspects of economic policy—and, indeed, to noneconomic policy as well." Yet no one talks of turning over those aspects to independent agencies. Like him, I cannot but wonder why. Regretfully, he leaves the question as "food for thought, perhaps for another day." For those interested in following up, Blinder indicates that he has offered some views on this issue in his article "Is Government Too Political?" (*Foreign Affairs*, Vol. 76, No. 4, 1997).

In sum, Blinder's little book does him credit and provides ample proof of the accuracy of his assertion that "there must be relatively few people on earth who have been as deeply immersed in monetary policy from both the academic and central banking sides" as he has. I have much enjoyed reading this brief exposé of central banking and monetary policy, which should be required reading for all those, specialists and nonspecialists alike, interested in those subjects.

Manuel Guitián



Bimal Chakraborty

The United Nations and the Third World

Shifting Paradigms

Tata McGraw-Hill, New Delhi, 1996, xxxviii + 321 pp., $15.80 (cloth).

Since 1945, the concept of a nation-state and the role of the United Nations have been redefined in an increasingly integrated world. In *The United Nations and the Third World*, Bimal Chakraborty attributes these changes to the emergence of supranational entities, such as economic unions, trading blocs, and multinational companies, and to the achievement of independence by a large number of developing countries. Countries' desire to benefit from globalization and to develop shared values is so great that it has led some of the former centrally planned countries to apply for membership in the European Union and for the latter's member countries to develop a common currency.

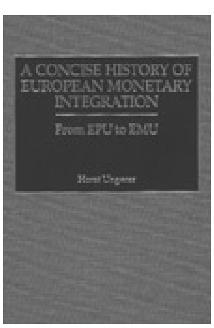
Unfortunately, many developing countries have been slow to realize the benefits of increased economic integration. Insufficient commitment to sensible, market-oriented policies and petty nationalism have kept many from receiving as much private investment and as many new technologies as they might have. Efforts to protect the interests of local businesses have—for reasons of economic nationalism—prevented some countries from exposing their economies to international competition. Nor did some developing countries' adoption of populist policies that extended wide-ranging subsidies to consumers and industry help them to prosper. Although developing countries have argued for structural changes in the international economy, they have been reluctant to correct inequities and remove structural impediments at home.

The basic structure of the United Nations has remained broadly unchanged since its inception. The rising membership of newly independent developing countries, however, has enhanced the role of the General Assembly and led the UN to focus on development-related issues. This shift in focus, Chakraborty asserts, requires a reconsideration of the size and the composition of the Security Council. The developing countries as a group have vastly differing economic characteristics, but they share a common objective: economic development. Despite their diversity, the interests of developing countries have converged in many instances at the United Nations—partly because of their common colonial heritage—and been articulated at the General Assembly, where these countries collectively have a voting majority.

Chakraborty shows that the views that many developing countries have expressed at the United Nations have not necessarily been consistent with their domestic policies. For instance, military spending continued to increase worldwide until 1985, despite many countries' repeated calls for disarmament. Developing countries continued to purchase arms, which was partly facilitated by export credits provided by the governments of arms manufacturers. Lack of political freedom and of transparent governance in many developing countries may have contributed to their high military spending. Furthermore, although developing countries have spoken out, in various United Nations debates, against the violations of human rights associated with apartheid, racial discrimination, and colonialism, many of their governments have imprisoned political opponents, suspended civil liberties, postponed national elections, and promulgated "national emergencies" in their own countries.

There is little that one can quibble with in the broad message of this book. Its principal contribution, however, lies in the effort it makes to encourage developing countries to implement appropriate political, social, and economic policies. At the same time, there are statements in the book with which this reviewer does not agree. For instance, Chakraborty argues that there is always a trade-off between economic growth and economic equality. More recent research, however, shows that this need not be the case. (See, for example, Vito Tanzi and Ke-young Chu, eds., 1998, *Income Distribution and High Quality Growth* (MIT Press).) Appropriate government policies (for example, those regarding spending on education and health) could ensure that the benefits of economic growth are shared by low-income groups. In the same vein, one could take issue with the author's view that military spending of about 3–5 percent of GDP is appropriate for many developed countries. Worldwide military spending declined from 3.5 percent of GDP in 1990 to 2.3 percent of GDP in 1996. The reduction in military spending in industrial countries over the same period was from 3.3 percent of their GDP to 2.3 percent (*IMF Survey*, April 21, 1997). Military spending of 3–5 percent of GDP in some countries might, therefore, have a negative impact on the composition of their public expenditure and could squeeze their social expenditures. Furthermore, when all countries are reducing their military spending, the share of GDP they devote to this should decline as well.

Sanjeev Gupta



Horst Ungerer

A Concise History of European Monetary Integration

From EPU to EMU

Quorum Books, Westport, Connecticut, 1997, xii + 339 pp., $69.50 (cloth).

Horst Ungerer's book on the history of European monetary integration is certainly timely, given the expected January 1, 1999 introduction of the so-called third stage of European Economic and Monetary Union (EMU)—the irrevocable locking of participating countries' exchange rates and the introduction of the new European currency, the euro. As newspaper headlines follow the birth pangs and delivery of the new currency, Ungerer's book will provide a comprehensive reference work.

A Concise History of European Monetary Integration covers in detail the key elements of monetary integration, including the Delors Report and the Maastricht Treaty, along with a range of less-remembered treaties, statements, and reports, and various dead-ended attempts to move toward integration. The book also provides good coverage of the debates of the time, including that between the "monetarists" and the "economists"— although neither title relates closely to its usage in common parlance today. Throughout the story, Ungerer repeatedly brings in the impact of global developments. This approach is quite natural, given that he spent much of his career as an official of the IMF, and offers a nice contrast to the Eurocentricity of many other studies on the subject.

In some respects, the overall picture is one of continuity, from Winston Churchill's 1946 speech calling for European union to the prospective abolition of the individual EMU participants' currencies over the coming years. But in other respects, the issues that concerned the unifiers in the 1940s and 1950s bear little relationship to those being addressed as EMU approaches. Much of the original agenda of the "founding fathers" of Europe was essentially completed by the end of the 1950s with the achievement of current account convertibility and the establishment of the European Economic Community (EEC).

As Ungerer notes in his discussion of the 1950s, the Treaty of Rome and various ancillary activities paid little attention to monetary or exchange rate issues. The Bretton Woods system was functioning fairly effectively, and European union was not about single currencies. Ungerer finds it surprising that the framers of the EEC saw no need for monetary integration, but this is perhaps unfair. The Bretton Woods system of the time was remarkably resilient, failing only after a series of major shocks over 15 years; the framers of the EEC rightly had other items on their agenda. Even during the 1960s, there was little sense of a common European monetary interest. Ungerer's description of the decade is a monetary history of a group of countries that happened to be in Europe, rather than countries with a common monetary identity.

Ungerer is self-confessedly a strong supporter of European monetary integration, no doubt partly motivating the careful research he has put into the study. In a few areas, however, this support seems to lead to observations that are open to question. For instance, Ungerer writes approvingly that the European Commission's staff act independently of individual national interests and are "frequently called the guardians of the treaties." One does not have to be totally cynical to feel that this is not the entire picture. It would be interesting to have a more in-depth analysis of how the Commission leads, follows, or is independent of public trends toward integration. A full discussion of the evolution toward EMU needs some analysis of the interrelations between the governors and the governed. The statement in the book—that the public supports the move to EMU—is not self-evidently true. Denmark, for example, rejected EMU in a first referendum and only accepted it in a second referendum when it secured an "opt out" for itself. France's referendum on EMU passed with the narrowest of margins. And public opinion polls in Germany, Scandinavia, and the United Kingdom do not generally show majority support for EMU. Skepticism about the single currency derives from more than the habitual culprit—"lack of information"—cited in the book.

One of the most interesting sections of the book relates to the exchange rate developments of the early 1990s. Ungerer brings out very well the highly asymmetric nature of relationships among European Union (EU) members at this time. Germany was pursuing monetary policy, essentially by focusing on domestic monetary developments, while most of the other EU countries focused on maintaining stability against the deutsche mark. The "Emminger letter" of 1978 set out the Bundesbank's position on the importance of ensuring that external monetary flows not undermine domestic monetary stability, a position that the bank has broadly maintained throughout the period of the European exchange rate mechanism (ERM). In response to the crises of 1992–93, the Bundesbank's concern about losing monetary stability as a result of foreign exchange inflows and intervention resurfaced. In 1993, when this concern peaked, German Finance Minister Theo Waigel called for a meeting of the Monetary Committee—the body mandated to coordinate exchange rate parities and arrangements within the ERM—and announced the resultant agreement on a widening of the bands to 15 percent as a *Befreiungsschlag,* or stroke of liberation. It is the awkwardness of maintaining this asymmetry over the long run that provides a large part of the momentum for EMU, especially on the part of France.

"The issues that concerned the unifiers in the 1940s and 1950s bear little relationship to those being addressed as EMU approaches."

One difficulty in writing a book such as this—while the underlying story continues to unfold—is selecting a cut-off point. Ungerer has chosen 1996, which works quite well. He goes on to hazard a guess about the outlook for the period thereafter. This attempt is interesting, but readers already have the benefit of a year of hindsight. The principal way in which developments have diverged from expectations is that, as a result of German attempts to revalue their gold reserves to achieve the Maastricht fiscal criteria without supplementary fiscal measures, they have been unable to maintain their earlier "purist" attitude toward the criteria countries must meet in order to qualify for EMU participation. As a result, the selection of countries is now likely to be less divisive than might have been expected, and the euro might be weaker than otherwise. Contentious issues will continue to arise and will need to be addressed. Hopefully there will be a second edition of this book, or a follow-on to the present one, that will cover the remainder of the story.

Charles Enoch