# After Wolfensohn: Assessing the World Bank

*Sebastian Mallaby's book about the World Bank and its President James Wolfensohn has generated not only a lot of publicity but also genuine discussion about the Bank and its mission. The imminent appointment of a new president to replace Wolfensohn when his second term runs out in June makes the book even more timely.*

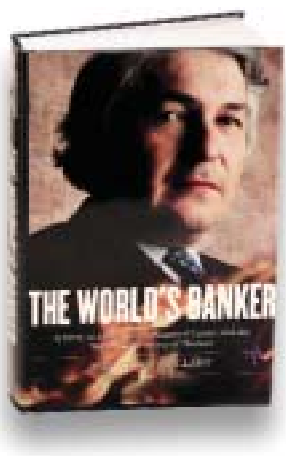
*That's why* F&D *asked two people with unique insight into the workings of the Bank to review* The World's Banker. *Nancy Birdsall is President of the Center for Global Development. She was formerly with the Carnegie Endowment for International Peace and has also served as Executive Vice President of the Inter-American Development Bank. Before that, she was Director of the Policy Research Department at the World Bank. Moisés Naím, the Editor-in-Chief of* Foreign Policy *magazine was an Executive Director at the World Bank and Venezuela's Minister of Industry and Trade. He served in 1996 as one of Wolfensohn's four senior advisors.*

## An indispensable bank

***Nancy Birdsall***

Few books about public policy are fun to read—as compelling as the work of development experts in big bureaucracies may be, their debates and policy dilemmas do not translate well at weekend parties. Mallaby solves the translation problem, and brilliantly. He brings development policy alive by seeming to write a book about an outsized character: James Wolfensohn, the World Bank's president for the past nine years. But what he has to say about Wolfensohn—as good reading as it makes—is not really the point. Even the Bank is not really the point. This is a book about development in the changing global economy of the 1990s. For the growing number of people troubled by the yawning gap between the very rich and the very poor, it dissects the complications, constraints, and occasional triumphs of the development community of which the Bank is the singular, central institution. Insiders to development who know the Bank will find here new insights; non-experts—and the next Bank president—will find a thoughtful, balanced perspective on the Bank's problems and potential.

Mallaby's starting point is that the development community and its leading institution are suffering a crisis of confidence. The experts have lost faith in the old recipes for how the rich might help the poor. Progress in reducing poverty, after all, was greatest in the 1990s in China and India, where the Bank's policy messages were mostly ignored and its resources more tolerated than sought. In Africa, where the Bank and other donors financed 50 percent of some governments' budgets, "development" in the 1990s was mostly a failure. Once sacrosanct Bank programs—financing capital investment, focusing on rural poverty, insisting on market reforms in once-statist economies—have not worked in the poorest countries. But the new solution, building sustainable institutions and ending corruption, is elusive and depressingly unresponsive to big money. Most frustrating of all, this business of institution building has to be home-grown; success seems to depend on great men and women (as illustrated by Mallaby's wonderful tale of Uganda's central bank governor and former secretary of the ministry of finance, Emmanuel Tumusiime-Mutebile).




*Sebastian Mallaby*

**The World's Banker**

**A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations**

The Penguin Press, New York, 2004, 462 pp., $29.95 (cloth).

Mallaby uses the Bank's failings and successes to illuminate the difficulty of "doing" development from the outside. He is clear-eyed about the Bank's failings—on AIDS, where he outlines the Bank's late and lackluster awakening to the problem; in Bolivia, where an enterprising manager's proposal to attack time-consuming loan procedures and ease the Bolivians' costs was rejected by the Bank's Executive Board; in Indonesia, where the Bank turned a blind eye to corruption in what seemed a successful poverty-reducing client. For these and other shortcomings, he avoids the usual bluster about cosseted and overpaid staff who push loans to get promotions. In fact, he draws fine portraits of the Bank's many hidden heroes—managers who dared to take risks and buck the system, and staff who are mostly hard-working, committed, can-do people who want to make the world a better place.

Where blame is due, Mallaby assigns it squarely. For imposing unreasonable environmental standards on borrowers whose poor could benefit from power and other infrastructure projects, he blames rich-country nongovernmental organizations (NGOs) (who have no "off switch" in his apt and colorful language). For forcing the Bank to abandon a project that would have helped poor people in a rural Chinese province with a minority Tibetan population, he blames the United States and its Congress for know-nothing pandering to those unac-

*Camilla Andersen is Books Editor.*

countable NGOs (and faults Wolfensohn too, for believing for too long that he could charm them into quietude). For the Bank's missed opportunity to apply its reconstruction expertise in Iraq, he blames the Bush administration. And for insisting the Bank address every new global problem, and then complaining about its lack of focus, he blames its most powerful and pushy members—the United States and the other Group of Seven countries.

There are also refreshing exegeses of Bank successes. Uganda's exceptional growth was helped along by one of those risk-taking Bank heroes, who outsmarted time-honored Bank customs to help Minister Tumusiime-Mutebile. In Bosnia, resourceful Bank staff braved bullets and set a record in unlocking Bank financing for critical post-war reconstruction. The Bank's research department is the development community's recognized "brain trust" and the Bank's analysis its greatest single contribution. In unbundling both success and failure, Mallaby consistently chooses honesty over headlines, leaving readers to come to their own conclusions.

All that said, there are a few things that Mallaby does not get quite right. Without the NGOs, the Bank would still torture its borrowers with burdensome procedures and delays, as it did decades ago before environmental and other safeguards compounded that problem. Mallaby worries over Wolfensohn's initiatives on religion and culture. But in fact it does make sense for the Bank to have some competence on the full range of issues that matter for development strategy and impact. Complaints about the Bank's lack of "focus" may be warranted, but they should be based not on visible (and low-cost) initiatives of the president, but on the allocation of the Bank's loans and staff time, and the reluctance to accept trade-offs in its country operations. More broadly, the Bank has far less leverage than Mallaby sometimes seems to assume. Bank staff do not "drive borrowing governments' strategies on AIDS, civil service reform, and other difficult issues." Mallaby emphasizes the risks to the Bank's mission of relentless NGO pressures, which are reducing the demand from its borrowers for the Bank's services and loans. But in fact the greater risk may come from those who question whether the Bank has any role at all anymore, especially in middle-income countries with some access to private capital.

But this is quibbling about a wonderful book in which Mallaby allows himself one clear conclusion: To win the greatest battle of our global age—overcoming poverty—the world can't do without the World Bank.

## Envious autonomy

***Moisés Naím***

Books about the World Bank tend to be either armchair disquisitions about economic development, econometric analyses of specific problems, or ideological rants. *The World's Banker* is a welcome break from these trends. Sebastian Mallaby offers an insightful survey of the central dilemmas of underdevelopment as well as the practical problems encountered by multilateral institutions charged with reducing poverty.

While *The World's Banker* will surely influence the way future historians will judge James Wolfensohn's performance, that is not the main reason why the book is bound to become an obligatory reference for anyone interested in the Bank. Its lasting contribution is the light it shines on the nature and behavior of this indispensable institution, rather than what it tells us about the personality and behavior of one of its presidents. Mallaby artfully uses Wolfensohn's attempts to simultaneously change the institution and reduce poverty to illuminate the possibilities and limitations of such an undertaking.

Mallaby was given access to a massive trove of documents and seems to have read them all, while also finding the time to interview 200 individuals inside and outside the Bank, including Wolfensohn himself. Mallaby's travels to Bosnia, Chad, and Uganda provide the firsthand information that supports some of the most interesting chapters in the book. But Mallaby is not just a journalist who writes well, works hard, and knows how to get sources to talk. He also knows the professional literature on economic development and clearly has a solid understanding of the fundamental debates on the subject. The book is full of colorful anecdotes that serve as stepping-stones to a broader discussion. For example, Mallaby uses the story of Emmanuel Tumusiime-Mutebile, Uganda's economic czar, to draw interesting lessons about the complex interaction between African governments and foreign aid agencies, and more generally, about development and managing economic change.

**"The power of the president of the World Bank is enormous, and he enjoys surprising autonomy."**

Mallaby's profiles of several Bank employees and their often heroic exploits serve to debunk the common perception of Bank staff as a bunch of pampered, lazy bureaucrats. While the Bank is not devoid of black holes of bureaucratic indolence, it is also endowed with a large number of hard-working, idealistic professionals who often are the best in the world in what they do. Moreover, Mallaby convincingly shows that the causes of the Bank's inefficiencies are more likely to be found at the top of the organization and among influential outside players (NGOs and donors, for instance) than among its rank and file.

*The World's Banker* also illuminates, often inadvertently, the controversies surrounding the need to redesign the global financial architecture. While not addressing these issues directly, the book offers a powerful indictment against proposals that ignore the realities of how the institutions that form the core of the global financial architecture actually operate. By documenting how important decisions are made at the Bank, Mallaby exposes the shortsightedness of proposals that fail to address how any new multilateral institution would overcome the problems currently hampering the Bank. Critics also need to show how closing down the Bank would alleviate any major global problems. As this book demonstrates, the Bank is often the only player that is making a positive difference.

One of the book's puzzling shortcomings is its neglect to discuss one of its most obvious findings: the power of the president of the World Bank is enormous, and he enjoys surprising autonomy. This is surprising because the Bank invests an inordinate amount of money, time, and energy on a massive governance structure designed to hold its top managers accountable and prevent any excesses. The enormous autonomy that Mallaby documents is even more surprising given that the president is constrained by numerous outside constituencies. Wolfensohn has to contend with a board of 24 full-time and nominally independent executive directors, each of whom is supported by an alternate director and several advisors and assistants (at a direct cost of $56 million per year). The Bank also has to deal with the demands emanating from a board of governors, an inspection panel, an evaluation office, and public agencies and parliaments in donor countries, as well as numerous and militant NGOs, a watchful global media, and a 10,000 strong internal bureaucracy.

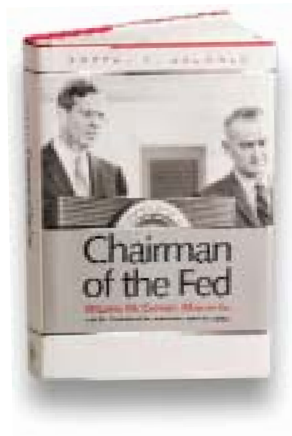
Yet *The World's Banker* shows that despite all the high drama, the tantrums, the conflicts and the frustrations of everyone involved, Wolfensohn has been able to push through almost all his initiatives, from the fundamental to the whimsical. Getting approval to add a quarter *billion* dollars to the existing $1.1 billion outlays in administrative costs? Yes. Forcing the adoption of his highly idiosyncratic "Comprehensive Development Framework" as the standard to guide the strategies of the Bank and the countries that borrow from it? Yes. Drastically overhauling the Banks' top management and overall organizational structure? Yes. Spending millions of dollars to send hundreds of Bank staffers to U.S. business schools for brief periods? Yes. Frame the mission of the Bank as "a dream"? Yes. These are not necessarily all bad ideas, but many are, to say the least, highly controversial.

Wolfensohn probably has a long list of the compromises he had to reach to see these initiatives through, an equally long list of other ideas close to his heart that he was unable to implement, and a list of decisions imposed on him. Still, what the book shows is that he enjoyed an autonomy that would be the envy of most top public sector officials in democratic societies and perhaps even some chief executive officers of large, publicly listed companies.

What did Wolfensohn accomplish with all this power during a decade? According to Mallaby, less than what would have been ideal and even less than what Wolfensohn himself set out to achieve. Wolfensohn had three main goals, and they are the benchmarks Mallaby uses to assess his performance as president: improve the Bank's internal management, improve the advice it gives to countries, and improve the Bank's relationship with key stakeholders—shareholders, NGOs, and borrowers. Mallaby concludes that the managerial goal is the one where Wolfensohn scores the worst. And while he gives him credit for some innovations in the pursuit of the other two goals, he does so with many caveats and reservations.

Assessing managerial performance is always a subjective undertaking. In the case of an institution like the Bank, whose impact is long term and fiendishly hard to measure, it is an even harder task. Today, more than two decades after Robert McNamara stepped down as president of the World Bank, his performance is still debated. The same will undoubtedly happen with Wolfensohn's tenure. ■

## Earning independence




*Robert P. Bremner*

**Chairman of the Fed**

**William McChesney Martin and the Creation of the Modern American Financial System**

Yale University Press, New Haven, Connecticut, 2004, 368 pp., $38.00 (cloth).

"The reforms accomplished during the Martin era have stood the test of time, and the NYSE has never experienced a recurrence of the widespread self-dealing that brought Bill Martin into the Exchange presidency." In these words, Robert Bremner summarizes the contributions of William McChesney Martin as he left the New York Stock Exchange in early 1941 because he was drafted at age 34. This biography covers the full career of a remarkable man who always seemed to be in the right place, mostly made the right decisions, and accomplished much for his country and the world.

Bill Martin was not at Fort Dix for long. He was put in charge of the Russian lend-lease program. After the Second World War, he became president of the Export-Import Bank, before moving to the U.S. Treasury as Assistant Secretary for International Affairs. There, in early 1951, he was involved in negotiating the "accord" between the Treasury and the Federal Reserve under which the U.S. central bank recovered its de facto independence in monetary policy to go with its de jure independence. The Federal Reserve was no longer fully obligated to peg interest rates on long-term (or short-term) Treasury debt. Within a month, Martin became chairman of the Federal Reserve Board, where he remained until January 31, 1970.

The rest was not easy. The Martin Federal Reserve had to implement the "accord" and slowly earn its true independence. At the same time, Martin and his colleagues had to deal with the inflation that followed the Korean War in 1954–55 and resurfaced in 1956–57. With two recessions in the late 1950s, Richard Nixon held the Federal Reserve's high interest rates responsible for his loss to John F. Kennedy in 1960.

After Lyndon B. Johnson succeeded JFK, the Vietnam War escalated, and inflation pressure reemerged. Martin wanted fiscal policy to help restrain inflation, but the president resisted. When he finally agreed half-heartedly to propose a tax surcharge, the chairman of the tax-writing House Ways and Means Committee (Wilbur Mills) would not consider it unless the president would also put forward expenditure cuts as well. The president wanted to continue to spend on both guns (the war) and butter (his anti-poverty program). By the time this matter was resolved, the Great Inflation, which accelerated into the early 1980s until the Volcker-led Federal Reserve adopted draconian measures, was under way. Federal Reserve actions under Martin were too little too late, and that continued to be the case under Arthur F. Burns and G. William Miller. Meanwhile, the U.S. dollar and gold reserves came under pressure, sterling was devalued in 1967, and the two-tier gold market was established in 1968, which lasted until Nixon closed the U.S. window for official gold transactions in 1971.

Bremner's account of Martin's life is fascinating and informative. Even those who lived through much of the period will learn a lot. An economist will have a bit of a problem in a few places because the analysis is incomplete or slightly misleading (but then Martin himself was no economist and distrusted economic forecasts). For example, Bremner does not explain that the "deficit" in the U.S. balance of payments that everyone was worried about was not a trade or current account deficit—the United States was in surplus—but the buildup in short-term official external claims against the gold stock.

Bremner does a masterful job of conveying the challenges facing Martin and his operating philosophy: try to work things out and keep the Federal Reserve independent within the government. Martin has been criticized by Allan Meltzer for his efforts to coordinate monetary and fiscal policy, bringing on the Great Inflation. "Political pressure to coordinate policy reinforced widespread beliefs that coordination of fiscal and monetary policies is desirable," Meltzer said in a paper delivered at the Federal Reserve Bank of St. Louis in October 2004. One can, as I do, disagree with Meltzer—it is better to have tried and failed than not to have tried at all—

"A great deal to think about—especially if U.S. fiscal policy continues on its current dangerous trajectory."

and still fault Martin, his colleagues, and their successors for their monetary policies. Readers of Bremner's excellent biography can make up their own minds. He has given them a great deal to think about—especially if U.S. fiscal policy continues on its current dangerous trajectory.

***Edwin M. Truman***
*Senior Fellow, Institute for International Economics*

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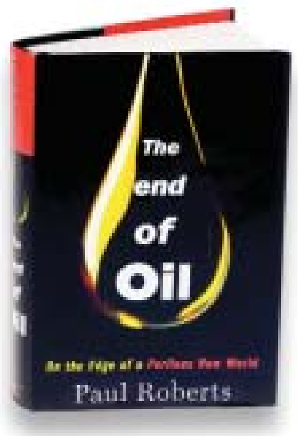
Laura Wallace, Editor-in-Chief

# BOOK REVIEWS

## Preparing for the end of oil




*Paul Roberts*

**The End of Oil**
**On the Edge of a Perilous New World**
Houghton Mifflin, Boston, 2004, 400 pp., $26.00 (cloth).

This timely and readable book is about the world's addiction to oil, its eventual depletion, and the need to proactively search for alternative energy resources. It is also about politics, specifically the interplay between oil and U.S. Middle East politics. It argues that excessive oil consumption in the United States and the concentration of oil reserves in the Middle East, together with price volatility, have created an unsustainable situation. Furthermore, even by optimistic accounts, oil production will peak some time in the next 30 years, so something has to be done. Even if oil were not to run out, it would be foolish to continue to consume at the current rates because the environmental impact would be disastrous.

Roberts argues that while oil has been the key to economic progress and prosperity, it has also has been a source of geopolitical instability. He links developments in the oil market to the Gulf wars and the events of September 11, 2001 and is explicitly critical of the current U.S. administration's energy policy, arguing that the invasion of Iraq was not only to capture oil but also to permanently break the power of the Organization of the Petroleum Exporting Countries (OPEC) over oil supply. This obsession with the security of oil supply, even through military means (as opposed to putting more efforts into energy efficiency and looking for alternative sources), according to Roberts, reflects the attitude of American consumers as "the least energy-conscious people on the planet," as well as the interests of the U.S. oil and auto industries.

"The United States is too focused on guaranteeing the flow of oil from the Middle East and does not do enough to develop alternative sources."

The book is not very kind to OPEC either. It accuses OPEC of ineffective (and often damaging) efforts to control prices that, together with political instability in the Middle East, has been the main cause of large fluctuations in prices. Roberts is also very critical of OPEC member countries' management of their oil revenues.

Roberts argues that policymakers do not have the right incentives to prepare the world for the end of oil. On the one hand, the United States is too focused on guaranteeing the flow of oil from the Middle East and does not do enough to develop alternative sources. On the other hand, market forces, which have in the past played a role in the process of finding alternative energy sources, are not at present ready to push oil out because it is not scarce and not expensive. The true cost of excessive use of oil is environmental damage and its consequences.

The book concludes, therefore, that the primary force behind any potential change in attitudes and policies is the adverse climatic change caused by extensive use of hydrocarbons. The solution to the oil problem is implementing policies that increase energy efficiency. To this end, Roberts proposes a cap-and-trade system for carbon emission, well-funded research and development efforts, and an all-out drive to reduce U.S. consumption of oil. He writes: "Starting now dramatically improves our chances of success, because it means we have more options, more freedom in how we deal with our energy problems."

The book has a lot of useful information and analysis, based on extensive research and discussions with experts. However, while it is rich on politics, anecdotal evidence, and historical details, its analysis is at times too journalistic (for example, in relation to hydrogen fuel cell technology) or based on limited evidence (for example, quotes from unnamed officials and experts). Also, while there is justification in the need for intervention in switching away from oil, the role of economic factors—in particular rising oil prices—and other automatic mechanisms is not sufficiently examined. Some people may also find the political analysis somewhat simple. In particular, the book focuses excessively on conflicts in the politics of oil. It assumes OPEC has been, and always will be, hostile. It does not see any scope for better coordination between oil producers and consumers to make the inevitable transition from oil smoother.

All in all, however, this is an impressive book. Its analysis and conclusions, although provocative, warrant serious consideration by policymakers.

***Hossein Samiei***
*Head of the Commodities Unit*
*IMF Research Department*