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Lawrence C. Berney

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LAWRENCE C. BERNEY*

BANKING ON THE POOR, by ROBERT AYRES, MIT Press, 1984, Pp. 282

Banking on the Poor presents the World Bank (the Bank) as a very cautious lending institution until Robert S. McNamara resigned as Secretary of Defense and became the Bank's president in 1968. Robert Ayres traces the evolution of Mr. McNamara's poverty-oriented redirections at the Bank which replaced the previous trickle down approach to development. During Mr. McNamara's tenure (1968-81), the Bank expanded its lending commitments to over \$12 billion in fiscal 1981 from less than \$1 billion in fiscal 1968.

Ayres, a political scientist, former Brookings Institution scholar, and fellow at the Overseas Development Council (ODC), provides an insightful inside view of the operations of the Bank under McNamara. The author conducted approximately 300 interviews with Bank staff and officials and was allowed access to a considerable number of internal documents.

A product of the Bretton Woods conference of July 1944, The International Bank for Reconstruction and Development, now known almost exclusively as the "World Bank," opened its doors in June 1946.¹ Its function was to assist in the reconstruction of war-torn Europe and Japan and in the development of the less developed world.² In the decade that followed, the principal developmental goal was to expand the aggregate growth rate.³ To this end, lending was concentrated in areas such as transportation, communication facilities, port developments, power projects, etc.⁴ Lending to fields that included education, sanitation and health was eschewed as their contribution to growth was less measurable.⁵

The Bank, which has long been a target of the left for supporting reactionary regimes, came under attack from the right during the late seventies. The right charged that the Bank was supporting socialist schemes and financing massive welfare programs

* Executive Editor, BOSTON COLLEGE THIRD WORLD LAW JOURNAL

¹ R. AYRES, *BANKING ON THE POOR*, at 1 (1984).

² *Id.*

³ *Id.* at 2.

⁴ EDWARD S. MASON AND ROBERT E. ASHER, *THE WORLD BANK SINCE BRETTON WOODS*, at 189, 190 (1973).

⁵ *Id.*

in the Third World. The author sides with neither the leftist nor the conservative critics of the Bank. He adopts a centrist view, emphasizing the Bank's reformist role.⁶ The book views reform as preferable to revolution and it largely looks at various ways of promoting reform.⁷ The author rejects both conservative and radical models as inappropriate criteria for evaluating the Bank's anti-poverty work. Those on the left desire that the Bank contribute to revolutionary change, something it is not in the business of doing. Those on the right appear to desire that the Bank become an underwriter of the plans of the private sector. This too would be alien to the Bank's development role. Ayres believes the Bank must be the judge in light of what its programs are trying to attain and not in light of externally prescribed criteria. Conservatives within the United States were concerned because McNamara's redirection of the Bank was wasting funds donated, in part, by the U.S. They thought the changes were doing little good for American business.⁸ The poverty-oriented projects were termed "giveaways"⁹ with low rates of return at best. Ayres spends a good deal of his time defending the Bank from its right wing critics. Although he dismisses the arguments on the left as overly simplistic, he does not spend enough time refuting some of the more persuasive criticism presented by the left.

A provocative leftist critique of the Bank contends the right has nothing at all about which to complain.¹⁰ The Bank and McNamara in no way repudiated the conservative old-style projects; lending for these continued and even increased under McNamara, but with the expansion of total lending it was possible to reduce the relative predominance of such projects by expanding the new types even more rapidly.¹¹ While devising ways for its projects to reach the poor, the Bank more typically exerted its influence to keep wage levels low in order to encourage foreign investment and export business.¹² A passage from a country report provides a good example: "... continuously increasing wages without increased labor productivity may hamper Papua New Guinea's agricultural export

⁶ Ayres, *supra* note 1, at 13.

⁷ *Id.*

⁸ *Id.* at 231.

⁹ *Id.*

¹⁰ C. PAYER, *THE WORLD BANK* (1982).

¹¹ *Id.* at 26.

¹² *Id.* at 56.

growth by reducing its competitive strength vis-a-vis other exporters."¹³

Ayres does not bother to refute the leftist argument that puts part of the blame of the poor's condition on the Bank. McNamara was quoted as saying in a 1974 press release "[t]hroughout the developing World, the rural poor have neither shared adequately in their country's progress, nor have themselves been able to contribute significantly to it. Their destitution has in effect ruled them out of the entire development process."¹⁴ The Bank assumes the poor are poor because they have been "left behind" or "ignored" by their country's progress, when, in fact, most are poor because they are the victims of that so-called progress.¹⁵ Their destitution has not "ruled them out" of the development process; the development process is responsible for their destitution.¹⁶

The argument concludes by saying it would be hard indeed to make the Bank any more responsive to the interests of international capital than it was under McNamara, who joined the board of Royal Dutch Shell when he left the Bank.¹⁷ In the last years of McNamara's presidency, the Bank had already begun to shift its emphasis away from the poverty-oriented projects to programs that would more directly aid international capital.¹⁸

As convincing as the above argument may be, Ayres does not attempt to defend the Bank from those forms of attack. Instead he concerns himself with evaluating the success of the methods the Bank adopted. Ayres sees the Bank as playing a reformist role as a development institution. He devotes the bulk of the book to an objective critique of the Bank's methods used to reach its intended goal; he does not continually throw into question the assumptions under which the Bank operates. He recognizes the Bank's limitations, but points out this fact does not mean he must derogate its work. The reform that most interests Ayres is the Bank's attempt to start tackling poverty directly, instead of waiting for the benefits of economic growth to "trickle down" to the poor. The leftist attack on the Bank challenges the validity of that attempt. It contends that "all that needs to be done is to strip away the public facade of

¹³ *Id.*

¹⁴ *Id.* at 57.

¹⁵ *Id.* at 57-58.

¹⁶ *Id.* at 58.

¹⁷ *Id.* at 355.

¹⁸ *Id.* at 355-56.

concern for the poor and begin boasting of what [the Bank] has been doing all along" to quiet the critics on the right.

In describing the activities and structure of the Bank, the author is quite balanced in his approach. He gives credit where it is due but is careful to point out the drawbacks as well. For example, the Bank is well known for its research work. Nevertheless, the people carrying out the research at the Bank were largely divorced from the operational staff. There was a tendency, Ayres points out, for the latter to view the researchers as misplaced academics who never built a dam or laid a road.¹⁹

By pointing out some of the outside constraints under which the Bank must operate Ayres demonstrates that all the Bank's problems are not self-inflicted. The external capital requirements of the developing countries are continuing to grow. This growth obliges the Bank to devote greater attention to its money moving activities than to poverty alleviation.²⁰ Tensions have also developed between the IMF and the Bank. The Bank's role is to supply long-term capital for economic development projects. The Fund's role is to supply short and medium-term balance of payment financing for nations experiencing temporary disequilibria in their external accounts. The Fund imposes strict conditions on borrowing countries. Since these conditions often entail a contraction of public credit, as well as freezing wages and reducing subsidies, many feel it has an adverse impact on the poor of the country. The author raises the issue as to whether the objectives of the Bank, with its long-term goals, and the Fund, with its short-term recipes, are at conflict.²¹

Ayres also raises some interesting political issues. Should the Bank lend money to undemocratic regimes? If a regime lapses into authoritarianism should the Bank exercise leverage on behalf of reform by withholding money?²² What about the issue of human rights? Should the Bank take a stand?²³ Ayres defends the Bank's position to continue to lend to all types of governments. The Bank argues that no one else will make loans to small farmers in Pinochet's Chile.²⁴ It is frustrating to the reader that these provocative issues are raised and barely discussed because they are outside the scope of the book. Ayres maintains his impartiality and raises these issues

¹⁹ Ayres, *supra* note 1, at 29-30.

²⁰ *Id.* at 52.

²¹ *Id.* at 53.

²² *Id.* at 55.

²³ *Id.*

²⁴ *Id.* at 56.

merely to point out the tremendous pressures under which the Bank must operate.

Ayres also points out that the Bank must operate under the constraints of some of its more vocal donors, e.g. the U.S. The Bank made no new loans to Chile under Allende, nor were loans made to Peronist Argentina between 1973 and 1976.²⁵ The message is that the Bank operates under impediments. The book falls short in this area, too; it brings up fascinating issues and then lets the reader down by moving on to other issues.

Ayres is, at times, quite critical of the Bank. He attacks the Bank's organization and blames its central decision-making process for some of its failures in the anti-poverty program. Ninety-four percent of the professional staff is located in Washington where most decisions are made.²⁶ "The priority placed upon the prompt meeting of targets . . . was sometimes seen to be at the expense of the nuances, subtleties, and ultimately the quality of the Bank's address of poverty alleviation."²⁷

Students interested in the workings of a large financial institution will find the book rewarding. A good description of how the Bank assesses how much a country may borrow is followed up with an interesting discussion of how politics also come into play when lending allocations are made. The Bank has maintained that lending has always been made on the basis of economic criteria alone. Political considerations are alleged to play no role in loan decisions; yet, Ayres is quick to point out that this claim was far from accurate. He cites as an example the decision to lend to a copper mine project shortly after Pinochet took power despite an economic report that stated Chile was suffering its worst depression since the 1930's.²⁸

The Bank's poverty-oriented thrust under McNamara raised some problems of country allocation, or the determination of which country would get how much new money. The countries that received money for political reasons — e.g. Nicaragua under Samoza — were not exactly poverty-oriented. Allocation struggles were not always resolved in favor of countries with a serious commitment to alleviating poverty.

A glaring omission in the discussion of lending allocations, in light of what we know today, is the Bank's role in fostering the debt

²⁵ *Id.* at 57.

²⁶ *Id.* at 65.

²⁷ *Id.*

²⁸ *Id.* at 71.

crisis. It would be interesting to know to what extent the Bank's lending programs contributed to a country's inability to meet its obligations. As has subsequently been learned, the idea of development through growth has led too many countries to the brink of insolvency. The omission is understandable in that the crisis only became widely discussed after 1982, when Mexico declared it could not meet its obligations.

Ayres is most critical when discussion moves to the theories of poverty alleviation. This chapter is not for the economic novice. Ayres details two theories of poverty alleviation. A volume entitled *REDISTRIBUTION WITH GROWTH (RWG)* marked the Bank's effort to spell out its approach to poverty alleviation. Under this approach the emphasis was on improving the absolute incomes of the poor, not on alleviating relative inequality.²⁹

Helping the poor meant primarily increasing the income, productivity, and output of the poor. The author is critical of the fact that the basic human needs (BHN) alternative, which he describes in depth, is dismissed by the Bank. The BHN approach to poverty alleviation is, Ayres contends, more direct and efficient than the RWG approach. Principal emphasis is put on the satisfaction of material needs. The approach involves establishing an inventory of core basic needs, formulating targets, and calculating what it would cost to make up the shortfalls in a specified time.³⁰ He does an excellent job rationalizing why the Bank followed the RWG approach: it was not radical, it would not be distasteful to the power elite in the country, and it was an approach the professional economists at the Bank could understand.

Ayres is less critical of the Bank's failure to be at the forefront of those championing a new economic order. Given that the developed countries are the principal donors to the Bank, it would be inappropriate for the Bank to call for a transformation of the existing North-South relationships. "In neither a national nor international sense did [the Bank] seek fundamentally to change the world in which the poor lived; it sought to improve the terms on which they related to it."³¹

A good portion of the book is spent analyzing the various anti-poverty projects developed under McNamara, the most celebrated of which was its rural development projects. Here the Bank made

²⁹ *Id.* at 89.

³⁰ *Id.* at 84.

³¹ *Id.* at 89.

its most radical departure from its past lending programs. Ayres demonstrates his objectivity by not hailing these projects as great successes. Instead he points out the vast majority of the beneficiaries were farmers who owned their own land. The projects were not designed to reach the landless, or the poorest of the poor.³² An additional limitation on the effectiveness of the rural development projects was their size. As an example, Ayres points out one rural project in Brazil was \$11.5 million compared to a steel project in the same country for \$2.1 billion.³³

A metaphor Ayres borrowed from a Bank observer to describe the internal disputes regarding the rural development programs is useful in relating the obstacles McNamara faced. The Bank is seen as a large ship heading full steam in one direction. The direction was that of trickle-down and support for economic infrastructure in developing countries. The "crew" had been instructed in the techniques of this direction and were content with it. McNamara's anti-poverty programs marked the beginning of a somewhat abrupt attempt to engineer a sharp turn. The captain's orders did not always make it down to the crew. While there was no outright mutiny, there was footdragging. Despite new orders, previous commitments to arrive at certain "ports" (projects already committed) could not be readily abandoned. To make matters worse, the "waters" (targeted countries) were not always cooperative.³⁴

Ayres avoids answering the difficult question: has the World Bank been effective in helping the rural poor? Although he devotes an entire chapter to an analysis of the implementation of rural poverty projects he claims the newness of the Bank's work militates against drawing conclusions about their success or failure. Another observer is less diplomatic.

Although the Bank advocates major policy changes necessary for an effective rural strategy, it will suspend lending if political turmoil accompanies a movement leading to change in a country's internal distribution of power and influence. Given its institutional and structural position it is unable to behave otherwise. The contradiction between what the Bank says should be done, and what it can or does do, makes it a singularly unsuitable institution to practice what it preaches.³⁵

³² *Id.* at 102.

³³ *Id.* at 106.

³⁴ *Id.* at 110-11.

³⁵ Aart J. M. Van de Laar, *The World Bank and the World's Poor*, 4 *WORLD DEVELOPMENT* 849 (Oct.-Nov. 1976).

Ayres exhibits a cynical view of the politics of foreign aid. He proposes several reasons why many countries that had no interest in the plight of the poor (Argentina, Brazil under the Generals, Chile) accept the anti-poverty aid. For example, a country might submit to poverty-oriented projects because it believed that if it accommodates the Bank's emphasis today, it may get what it really wants at a later date, like steel mills. Reasons for engaging in poverty-oriented projects have little or nothing to do with a country's sincerity. By not having to finance a much needed rural development project a government will have more money to spend on other nondevelopmental concerns. Although the willingness to implement poverty-oriented projects might be a cheap way of simulating a concern with poverty, the subject is often more complex, i.e. can the effects of the projects be contained within the area in which it was intended?

Ayres suggests that there are two possible answers to that question. On the one hand a project may actually assist in the avoidance of attacking structural causes of the country's economic problems. A rural project may serve as an instrument to quell potentially troublesome groups who seek significant change. On the other hand a project might set off unrest. A group of peasants in an untouched region may want the same type of project in their region. Ayres illustrates this issue of containment by describing the wide ranging effects of a reform movement in Chile under Frei from 1964–1970.

According to Ayres, it was more important to the Bank that its poverty-oriented projects were implemented than why they were implemented. The underlying political rationale of the Bank was political stability through giving people a stake in the system. The projects and economic reforms were designed to cultivate stability. Leftist critics see the poverty-oriented projects as holding back the forces of real change. Without the Bank projects the now poor would become even poorer; there would be heightened contradictions in the existing socioeconomic structure and the whole system would eventually crumble. Ayres does not give much weight to this view and is more concerned with defending the Bank from attack from the right.

Ayres defends the Bank from the right by showing that the Bank's poverty-oriented projects did not sacrifice its growth objectives. Before McNamara, the Bank saw the main route to growth through improvements in infrastructure: roads, dams, steel mills, etc. Under his leadership the route was widened to include human resource development and assistance for small-scale farmers. The

objective remained the same. The rates of return on poverty-oriented projects were generally satisfactory. The allocation of Bank funds was generally in the interests of American foreign policy.

Although Ayres is concerned with defending the Bank from attacks from the right he is not particularly worried about the developed countries withdrawing their support of the Bank. By the year 2000 over one billion people will be living a "life so limited by malnutrition, illiteracy, disease, high infant mortality, and low life expectancy as to be beneath any rational definition of human decency."³⁶ If not on moral or ethical grounds the developed world cares about this projection on economic grounds. An amelioration of the plight of the developing world's poor would greatly expand world markets for the developed world. The Bank's concern about poverty is important for political and strategic reasons too. A greater Bank effort to overcome absolute poverty would be compatible with the interests of the developed world in political stability. Ayres rightly points out that the real question confronting the Bank and the developed world is not whether they can afford to care but how to act upon their valid concern about poverty.

Ayres concludes with the correct observation that a structure of North-South relations that would be more facilitative of the poverty-oriented projects is sorely needed. Some of the debate about the effectiveness of the Bank in reaching the world's poor would be resolved if adverse international and national constraints on development were reduced. Unfortunately, the "new international economic order" is not yet part of the vocabulary of the Bank.³⁷

³⁶ Ayres, *supra* note 1, at 245.

³⁷ Edwards, *Symposium: NIEO: Development or Dependency?*, 3A PUBLIC LAW FORUM 89, 90 (1984).