More on the World Bank

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Since the actual nature and purpose of the World Bank's activities has become the subject of heated discussion in an earlier comment thread, with one rather thin-skinned anonymous commenter who claims to work for the World Bank calling my comments "grossly insulting" and referring to me as an "armchair smartarse," I am posting the following information condensed from Chapter Seven of Studies in Mutualist Political Economy.

The problem of access to foreign markets and resources was central to U.S. policy planning for a postwar world. Given the structural imperatives of "export dependent monopoly capitalism," the fear of a postwar depression was a real one. The original drive toward foreign expansion at the end of the nineteenth century reflected the fact that industry, with state capitalist encouragement, had expanded far beyond the ability of the domestic market to consume its output. Even before World War II, the state capitalist economy had serious trouble operating at the level of output needed for full utilization of capacity and cost control. Military-industrial policy during the war greatly exacerbated the problem of over-accumulation, increasing the value of plant and equipment by two-thirds at taxpayer expense. The end of the war, if followed by the traditional pattern of demobilization, would result in a drastic reduction in orders to this overbuilt industry at the same time that over ten million workers were dumped back into the civilian labor force. And four years of forced restraints on consumption had created a vast backlog of savings with no outlet in the already overbuilt domestic economy.

In November 1944, Dean Acheson addressed the Congressional committee on Postwar Economic Policy and Planning. He stressed the consequences if the war were to be followed by a slide back into depression: "*it seems clear that we are in for a very bad time, so far as the economic and social position of the country is concerned. We cannot go through another ten years like the ten years at the end of the twenties and the beginning of the thirties, without having the most far-reaching consequences upon our economic and social system.*" The problem, he said, was markets, not production. "*You don't have a problem of production... The important thing is markets. We have got to see that what the country produces is used and is sold under financial arrangements which make its production possible.*" Short of the introduction of a command economy, with controls over income and distribution to ensure the domestic consumption of all that was produced, Acheson said, the only way to achieve full output and full employment was through access to foreign markets. [William Appleman Williams, *The Tragedy of American Diplomacy*]

A central facet of postwar economic policy, as reflected in the Bretton Woods agencies, was state intervention to guarantee markets for the full output of U.S. industry and profitable outlets for surplus capital. The World Bank was designed to subsidize the export of capital to the Third World, by financing the infrastructure without which Western-owned production facilities could not be established there. According to Gabriel Kolko's 1988 estimate, almost two thirds of the World Bank's loans since its inception had gone to transportation and power infrastructure. [Gabriel Kolko, Confronting the Third World: United States Foreign Policy 1945–1980] A laudatory Treasury Department report referred to such infrastructure projects (comprising some 48% of lending in FY 1980) as "externalities" to business, and spoke glowingly of the benefits of such projects in promoting the expansion of business into large market areas and the consolidation and commercialization of agriculture. [Dept. of the Treasury. *United States Participation in the Multilateral Development Banks in the 1980s* (GPO, 1982)]

Besides the benefit of building "*an internal infrastructure which is a vital prerequisite for the development of resources and direct United States private investments,*" such banks (because they must be repaid in U.S. dollars) require the borrowing nations "*to export goods capable of earning them, which is to say, raw materials...*" [Gabriel Kolko, The Roots of American Foreign Policy]

Besides facilitating the export of goods and capital, the Bretton Woods agencies play a central role in the discipline of recalcitrant regimes. There is a considerable body of radical literature on the Left on the use of debt as a political weapon to impose pro-corporate policies (e.g., the infamous "structural adjustment program") on Third World governments, analogous to the historic function of debt in keeping miners and sharecroppers in their place. [Cheryl Payer, The Debt Trap: The International Monetary Fund and the Third World; Walden Bello, "Structural Adjustment Programs: 'Success' for Whom?" in Jerry Mander and Edward Goldsmith, eds., The Case Against the Global Economy; Bruce Franklin, "Debt Peonage: The Highest Form of Imperialism?" *Monthly Review* (March 1982)]

Cheryl Payer compared Third World debt to individual debt peonage, in that the aim of the latter was "*neither to collect the debt once and for all, nor to starve the employee to death, but rather to keep the labourer permanently indentured through his debt to his employer...*" David Korten argued, likewise:

> *The very process of the borrowing that created the indebtedness that gave the World Bank and the IMF the power to dictate the policies of borrowing countries represented an egregious assault on the principles of democratic accountability. Loan agreements, whether with the World Bank, the IMF, other official lending institutions, or commercial banks, are routinely negotiated in secret between banking officials and a handful of government officials–who in many instances are themselves unelected and unaccountable to the people on whose behalf they are obligating the national treasury to foreign lenders. Even in democracies, the borrowing procedures generally bypass the normal appropriation processes of democratically elected legislative bodies. Thus, government agencies are able to increase their own budgets without legislative approval, even though the legislative body will have to come up with the revenues to cover repayment. Foreign loans also enable governments to increase current expenditures without the need to raise current taxes–a feature that is especially popular with wealthy decision makers. The same officials who approve the loans often benefit directly through participation in contracts*

> *and "commissions" from grateful contractors. The system creates a powerful incentive to over-borrow.*

[When Corporations Rule the World]

Another way the Bretton Woods agencies exercise political power over recalcitrant regimes is the punitive withholding of aid. This powerful political weapon has been used at times to undermine elective democracies whose policies fell afoul of corporate interests, and to reward compliant dictatorships. For example, the World Bank refused to lend to the Goulart government in Brazil; but following the installation of a military dictatorship by the 1964 coup, the Bank's lending averaged $73 million a year for the rest of the decade, and reached almost a half-billion by the mid-70s. Chile, before and after the Pinochet coup, followed a similar pattern. [Bruce Rich, "The Cuckoo in the Nest: Fifty Years of Political Meddling by the World Bank," *The Ecologist* (January/February 1994)]

Payer's *The Debt Trap* is an excellent historical survey of the use of debt crises to force countries into standby arrangements, precipitate coups, or provoke military crackdowns. In addition to their use against Goulart and Allende, as mentioned above, she provides case studies of the Suharto coup in Indonesia and Marcos' declaration of martial law in the Philippines. Walden Bello, in Development Debacle, goes into much greater depth on the Philippines specifically, based on extensive (leaked) documentation of World Bank collaboration with Marcos in support of the authoritarian crackdown preceding his austerity programs.

Among the many features of the so-called structural adjustment program, mentioned above, the policy of "privatization" (by selling state assets to "latter-day Reconstructionists," as Sean Corrigan says below) stands out. Joseph Stromberg described the process, as it has been used by the Iraq Provisional Authority, as "*funny auctions, that amounted to new expropriations by domestic and foreign investors...*" Such auctions of state properties will "*likely lead... to a massive alienation of resources into the hands of select foreign interests.*"

The promotion of unaccountable, technocratic Third World governments, insulated from popular pressure and closely tied to international financial elites, has been a central goal of Bretton Woods agencies since World War II. Bruce Rich writes:

> From the 1950s onwards, a primary focus of [World] Bank policy was "institution-building", most often taking the form of promoting the creation of autonomous agencies within governments that would be continual World Bank borrowers. Such agencies were intentionally established to be independent financially from their host governments, as well as minimally accountable politically–except, of course, to the Bank.

The World Bank created the Economic Development Institute in 1956 specifically to enculture Third World elites into the values of the Bretton Woods system. As Rich described it, it offered a six-month course in "the theory and practice of development," whose 1300 alumni by 1971 included prime ministers, ministers of planning, and ministers of finance.

> The creation of such patronage networks has been one of the World Bank's most important strategies for inserting itself in the political economies of Third World countries. Operating according to their own charters and rules (frequently drafted

> in response to Bank suggestions), and staffed with rising technocrats sympathetic, even beholden, to the Bank, the agencies it has funded have served to create a steady, reliable source of what the Bank needs most–bankable loan proposals. They have also provided the Bank with critical power bases through which it has been able to transform national economies, indeed whole societies, without the bothersome procedures of democratic review and discussion of the alternatives.

Despite the vast body of scholarly literature on the issues discussed in this passage, perhaps the most apt description of it was this pithy comment, in a polemic by free market libertarian Sean Corrigan:

> Does he [Treasury Secretary O'Neill] not know that the whole IMF-US Treasury carpet-bagging strategy of full-spectrum dominance is based on promoting unproductive government-led indebtedness abroad, at increasingly usurious rates of interest, and then–either before or, more often these days, after, the point of default–bailing out the Western banks who have been the agents provocateurs of this financial Operation Overlord, with newly-minted dollars, to the detriment of the citizenry at home?
>
> Is he not aware that, subsequent to the collapse, these latter-day Reconstructionists must be allowed to swoop and to buy controlling ownership stakes in resources and productive capital made ludicrously cheap by devaluation, or outright monetary collapse?
>
> Does he not understand that he must simultaneously coerce the target nation into sweating its people to churn out export goods in order to service the newly refinanced debt, in addition to piling up excess dollar reserves as a supposed bulwark against future speculative attacks (usually financed by the same Western banks' lending to their Special Forces colleagues at the macro hedge funds) — thus ensuring the reverse mercantilism of Rubinomics is maintained?

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