Whither The Bank In the New Era?

The publication of this issue of BankCheck coincides with the Annual Meetings of the World Bank and the IMF, held this year in a political and economic environment that has changed dramatically since last year’s Meetings in Madrid. Twelve months ago, the Bank was dismissing its critics for being out of touch with a changing world. Policymakers and bureaucrats at other international financial institutions wondered out loud why citizens’ groups around the world so adamantly condemned structural adjustment policies, which in their circles of international officialdom were “no longer an issue.”

Then came Mexico. The crash of the peso in December, followed by the collapse of the Mexican economy—the model for dozens of adjusting countries worldwide—sent shivers down the spines of U.S. and international decisionmakers. They warned of the domino effect on other emerging economies as they tried, unsuccessfully, to convince the U.S. Congress to appropriate funds for a bailout of Wall Street investors. That the Clinton Administration ultimately had to move without Congressional support to prevent a default by the Mexican government served only to highlight the precarious future faced by the global financial system.

We are now in a new era. Years of structural adjustment of Southern economies geared to repaying the debt and facilitating foreign investment have devastated local productive capacity, social infrastructure, wage structures and local demand, exacerbating an economic insecurity and social instability that have become painfully obvious to all except those who choose not to see them. There is now an implicit understanding that the policies promoted by the Bank and the Fund are failing and that a new approach is needed.

At this juncture a badly needed breath of fresh air arrived in the person of James Wolfensohn. Assuming the leadership of the Bank after the Mexico debacle, he has no political stake in the policies of the past 15 years, and from his early actions he appears to understand that simply a change in image will no longer do.

With the Bank’s public support steadily eroding and its future role and funding base in question, Wolfensohn heads into his first Annual Meetings leading an institution badly in need of an overhaul. Does he have the vision, the will and the capacity needed to convince the Bank’s shareholders and their constituencies—his brethren on Wall Street and in the City of London—that, in a world of rapidly diminishing aid monies, more than the band-aid solutions of the past are required to reverse the process of destabilization that is putting investors in jeopardy from Mexico to Argentina and beyond?

Whatever Wolfensohn’s intentions, the prospects for fundamental change in the near term are not good. Under his direction, the Bank is continuing its adjusting ways, squeezing Mexico and other economies to death and telling women at the recent Beijing women’s conference how adjustment is for their own good. (See articles on pages 3 and 5.) While many Bank project staff long for space in which to do creative work, Bank economists still cling to and promote the old economic wisdom. Efforts by other U.N. agencies to open dialogues on economic policy are squashed by the turf-conscious Bank, and the U.S. Treasury continues to block an objective assessment of adjustment policies at U.N. summits, in IFI board rooms, and within the U.S. Executive Branch itself.

The situation cries out for leadership. The North turned a blind eye through the years as SAPs tore at the fabric of African societies and the smaller countries of the Americas. It turned a deaf ear to the entreaties and warnings from people across the South about the havoc that was being wrought in the name of some economic theory, the push for “competitiveness”, and shortsighted corporate self-interest. Mexico was a wake-up call, an alarm that, if ignored, will imperil the international economy itself. How the new Bank president addresses this matter as his institution moves into its 50th year of operation will determine whether the Bank will have a meaningful role to play in the years to come.

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