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MINNPOST

Jeffrey Sachs' quest: Something new at the World Bank

By Louis D. Johnston | 03/15/12

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Jeffrey Sachs

Jeffrey Sachs, director of The Earth Institute at Columbia University, announced on March 1 that he will seek the presidency of the World Bank. That might not strike you as strange; after all, isn't that how everyone from Mitt Romney to Barack Obama does it? You announce your candidacy, campaign to win the position, and then you either get it or you don't.

Not the World Bank. There has never been an open competition or declared candidacy since its founding just after World War II. The U.S. government always nominated a candidate (an American, of course) and then the Bank's board approved the nomination. Sachs' announcement is something new, and I hope it encourages a long-needed public discussion of the Bank's role in economic growth and development.

Origins of the World Bank

The World Bank is one of three institutions that grew out of the 1944 United Nations Monetary and Financial Conference, i.e., the Bretton Woods conference led by the Allied powers, especially the United States and Great Britain. The conferees decided that, in the wake of the destruction caused by the war, a malfunctioning international economy played an important part in causing and deepening the Great Depression and led directly to the war itself.

In particular, the conference created three permanent institutions:

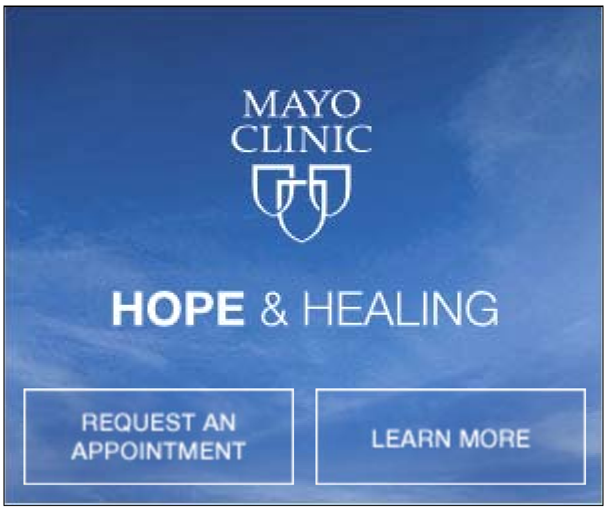
- The International Monetary Fund (IMF) to monitor and regulate exchange rates;
- The World Trade Organization (WTO) to write and enforce international trading rules;
- The International Bank for Reconstruction and Development (IBRD) to provide long-term loans to war-torn European countries and to developing nations.

The last institution came to be known at first colloquially, then formally, as the World Bank. (The original IBRD is now one of five organizations in the World Bank Group.)

The World Bank never had sufficient resources to play an important role in European reconstruction. The United States recognized this in 1946 and early 1947, which led to direct aid to Europe via the Marshall Plan.

McNamara and the World Bank since the 1960s

There have been 11 World Bank presidents since 1946, the most influential of which was Robert McNamara (1968-1981). The official biography on the World Bank's website describes his tenure well: "McNamara shaped the Bank as no one before him. He came to the Bank brimming with energy, forceful, active, pushing to get things done. He brought with him the firm belief that the problems of the developing world could be solved. What was needed was clear analysis of the problems and determination in the application of appropriate remedies. If this happened, success could not fail to materialize."



The official description continues, "McNamara eschewed the cautious, Wall Street-oriented approach of his predecessors. He adopted an aggressive mission that emphasized the claims and expectations of the Bank's developing member countries. The needs of the developing world – not the need to satisfy the investment community – became paramount in determining the type and quantity of the Bank's activities."

In short, under McNamara the World Bank became much less like a bank and much more of an institution devoted to promoting economic development through loans, grants, technical assistance and expertise, and all of the other tools at the disposal of modern businesses, nonprofit organizations, and governments.

Differing views on development

Sachs strongly believes in the McNamara tradition, and has set out his views in books such as "The End of Poverty: Economic Possibilities for Our Time" and "Common Wealth: Economics for a Crowded Planet." These books, along with his other writings, emphasize one central point: It is possible to end extreme poverty in developing nations in our lifetimes.

His approach is captured in the last paragraphs of his March 1 Washington Post op-ed: "I will work with industry, governments and civil society to bring broadband to clinics, schools and health workers, creating a revolution of knowledge, disease control, quality education and small businesses. I will work with agronomists, veterinary scientists, engineers and communities to build prosperity in impoverished and violence-ridden dry lands. I will work with engineers and financiers to harness the solar power of the deserts in the service of hundreds of millions in Asia and Africa who lack electricity.

I will work with urban planners, architects and community organizations to help ensure that the developing world's mega-cities are places to live and thrive." He advocates attacking all of these problems at once; this is known as the "big push" in development economics.

Sachs does not reflect a mainstream-economics line of attack to poverty reduction. Two other approaches are more representative of the profession.

One perspective is represented by Abhijit Banerjee and Esther Duflo of MIT and is summarized in their book "Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty." (Summaries of their work are available here [PDF] and here. They contend that Sachs' "big push" approach to development is untested. Instead, they aver that the World Bank should finance smaller pilot projects and conduct field trials in order to see what does and does not work in terms of economic development *before* spending massive sums of money

Sachs' response is that yes, we should do these types of trials and experiments, but not let them be a barrier to acting immediately to reduce extreme poverty.

William Easterly of New York University provides a second viewpoint. In his books "The Elusive Quest for Growth: Economists' Adventures and Misadventures in the Tropics" and "The White Man's Burden: Why the West's Efforts to Aid the Rest Have Done So Much Ill and So Little Good," Easterly contends that the McNamara (and by extension, Sachs) approach to development is bound to fail and in fact has failed over the past 50 years. In brief, big bureaucratic institutions such as the World Bank usually do more harm than good and it would be best if they stopped trying.

In his 2005 Clemens Lecture [PDF] at Saint John's University, Easterly summarized his views (with a focus on Africa): " In the end, economic development in Africa depends on African private sector entrepreneurs, African civic activists, and African political reformers ... not on what ineffective, bureaucratic, unaccountable and poorly informed and motivated outsiders do."

In Sachs' view, Easterly is far too pessimistic about what bureaucratic organizations and government can achieve. Further, Sachs would argue that Easterly overemphasizes the failures and underplays the successes of the World Bank.

Where do we go from here?

There is merit in all three of these approaches, not only for thinking about economic development in areas such as sub-Saharan Africa or Asia but for considering economic growth in industrialized countries. An ideal World Bank president, and for that matter a U.S. president, would combine the best in all of them: the can-do attitude of Sachs, the careful attention to what works and what does not work of Banerjee and Duflo, and the emphasis on the necessity of working with and empowering the private sector of Easterly.

Jeffrey Sachs' unprecedented quest for the presidency of the World Bank would ideally prompt a deep discussion of these issues. Unfortunately, I don't see this happening and am afraid we will get the same old, same old. President Obama has not articulated a clear vision of where the World Bank should go in the next five years, and will nominate someone like Treasury Secretary Timothy Geithner. Someone safe, predictable, and who will definitely not shake up the World Bank the way Sachs, Banerjee and Duflo, or Easterly would.

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Louis Johnston writes Macro, Micro, Minnesota for MinnPost, reporting on economic developments in the news and what those developments mean to Minnesota. He is Joseph P. Farry professor in the Eugene J. McCarthy Center for Public Policy and Civic Engagement at Saint John's University. He is also a professor of economics at the university.

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