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THE INFLUENCE OF BORROWER GOVERNMENTS ON DEFINING WORLD BANK LOAN CONDITIONS

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A significant portion of the literature on the World Bank treats it as a mechanism by which other actors impose their beliefs about how to pursue development on borrower governments through the conditions attached to World Bank loans. In many accounts, the imposers are the governments of the USA or the G7 states using it as a foreign policy tool making the world safe for capitalism as they define it (e.g., Pauly 1998; Stone 2011). In others, the imposer is the World Bank itself, a bureaucracy that escapes even US or G7 control (Barnett and Finnemore 2004; Haftel and Thompson 2006; Delreaux and Kerremans 2010). Analysts taking either view regard borrower governments as having no influence over the substantive content of loan conditions either at a particular moment or over time. Yet the shaping of loan condition content is not as uni-directional as these accounts suggest; borrowers have affected the number and content of loan conditions through their own responses. This possibility arises because its own organizational survival means the World Bank needs borrowers to continue its activity as much as borrower governments need loans to advance their economic development. This dynamic has been visible in recent years as borrower governments have been able to shop for loans from more sources, making it more difficult for the World Bank to set policy conditions (acknowledged in World Bank 2009: 16 for middle income countries; Prizzon, Greenhill and Mustapha, 2016 and Hernandez 2017 extend the point to low income countries as well). Yet borrower governments did have some influence over World Bank policy conditions even in the 1980s. How they acquired and used this influence in those earlier decades is revealed more

clearly by understanding the interactions between borrower governments and the World Bank as involving co-participants in an authority relationship than by using the more prevalent "tool of the great powers" or "runaway bureaucracy" perspectives.

An authority relationship involves two types of participating actors, the first with rights to instruct others regarding what to do and the second with obligations to follow the instructions. In national-level politics, the words "rulers," "governors," "commanders," or "superiors" are used for the actors with rights to instruct, and the words "subjects," "governed," "commanded" or "subordinates" are used for the actors with obligations to follow instructions. Yet authority relationships are not entirely top-down; there are significant bottom-up components in the shared expectations on which an authority relationship is based. By setting expectations about how both instruction-giver and the instruction-receivers will behave, these shared expectations channel instruction-giving and instruction-receiving in particular ways and create possibilities for the withdrawal or reformulation of instructions. To highlight this reality and avoid the steeply hierarchical connotations of the usual words used to describe the participants, the phrase "authority holder" will designate the actor with rights to instruct and word "addressee(s)" for the actor(s) expected to follow instructions in what follows.

Providing loans gives the World Bank a basis for instructing borrowers, so puts it in the authority holder position, while the characteristics of an authority relationship create affordances providing the borrower governments with opportunities to influence the number and content of instructions. It might be objected that an IGO can hardly function as an authority holder vis-s-vis member states because it typically lacks the resources to back its instructions with sufficient punishments or rewards to induce compliance by reluctant members. That equates holding authority with ability to coerce. However, there are other bases for holding authority. One is

greater expertise in a particular area, with addressees deferring because they are aware the authority holder can better identify the actions that will lead to goal attainment than they can themselves. Another, far more common among IGOs, is an act of delegation by which member governments entrust the organization with particular tasks and agree to comply with decisions (e.g., Nielson and Tierney 2003; Lyne, Nelson, and Tierney 2006). The World Bank Articles of Agreement are an explicit act of delegation, and Bank financial officers and project managers quickly developed a reputation for competence (Lewis and Kapur 1973: 3-4; Ohman 1973: 27; Crook 1986: 10-11). More general in-house development expertise was also created through re-instituting the Economics Department in the mid-1960s (Oliver 1975: 275). Having money to lend also meant that the Bank had something that borrower members desired particularly in the early post-World War II decades when private investors remained cautious about loans to developing country governments.

To plausibly hold authority, an IGO must also be able to demonstrate autonomy from any one member government or small group of member governments. The long discussions of the World Bank as a foreign policy tool assume that the World Bank lacks such autonomy, either from the US government or the G7 governments as a group. The executive heads and staffs of IGOs are aware of this problem, and, as students of bureaucracy (Ness and Brechlin 1988; Vaubel 1996; Frey 1997; Barnett and Finnemore 2004) explain, actively work to carve out and maintain autonomy.

One source of World Bank autonomy stems from its functioning as a financial intermediary selling bonds to private investors and relending the proceeds to borrower governments. This has enhanced management's autonomy vis-à-vis the major shareholders, particularly as Bank bonds have been sold in more countries and denominated in more currencies

(21 currencies are listed in World Bank Annual Report 2015: 55). World Bank leadership was initially unenthusiastic about adding the subsidized interest rate IDA loans to its portfolio because the money would be raised as contributions from governments of wealthier member states and it feared the loss of autonomy having to negotiate a new replenishment every three years would entail (Kapur, Lewis, and Webb 1997: 1120). Successive Bank presidents and vice presidents worked hard to maintain their margin for flexibility (Oliver 1975: 261*; Reddy 1985: 29-31; Narasimhan 1989: 35, n. 40), and Bank Presidents, though appointed at US government initiative, have regarded doing so as one of their duties (e.g. advice from outgoing president Lewis Preston recounted in Wolfensohn 2010: 263; (Mallaby 2004: 192-3). The World Bank has challenges maintaining autonomy, but on the whole has enough that it is reasonable to analyze its relations with member governments, particularly those seeking loans, as an authority relationship.

The elements of an authority relationship that provide borrower governments with opportunities to influence instructions exist in the shared expectations that hold an authority relationship together. These are often divided into substantive and procedural expectations (e.g., Scharpf 1997; Grant and Keohane 2005). However, that two-element distinction oversimplifies. Taking hints from some elements of legal and philosophical discussions (e.g., McDougal 1959: 6; Bayles 1976: 105) and arguments that following instructions involves addressees suspending, rather than surrendering, their ability to assess their relevance and usefulness (Day 1963: 268; Benn 1967: 217; Rosenblum 1987: 106; Rosler 2005: 95-98), a more adequate conception divides the shared expectations into 3 sets of procedural expectations and 4 sets of substantive expectations. The procedural expectations are specifications of:

Selection: the qualifications and selection process by which the role of instruction-giver is assigned to one or more particular actors;

Addressees: the rules defining the set of actors assigned to roles of receiving and following the instructions; and

Procedures: the forms and ways in which instructions should be conveyed to addressees

The substantive expectations are specifications of:

Goal: the purpose or outcome to be pursued;

Area: the subjects on, or issue areas within which, instructions may be given;

Relevance: the types of actions addressees may be instructed to take or avoid; and

Efficacy: whether and to what extent continued cooperation within the authority relationship has actually produced progress toward the goal.

Though institutionalizing the shared beliefs about how the relationship should work in formal rules like contracts or international agreements provides particular criteria with a certain amount of stability, all of them are likely to change over time as new technologies emerge, the circle of participants changes by addition or subtraction, or participants adopt different beliefs about what actions will or will not enhance goal attainment.

The statement of goal is central to the relationship in three ways. First, it ties the participants together by providing the motivation for collaborating through the relationship. Second, it provides the reference point for assessing the success of the cooperation. Third, its specificity or diffuseness establishes the amount of leeway available for interpreting and redefining the relevance and efficacy goals. A very precise goal, such as Millennium Development Goal 4 of a 2/3s reduction in the morality rate of persons under 5 by the end of 2015, offers little room for divergent interpretation. A very diffuse goal, such as "promote

economic development" is open to more varied interpretation and the possibility of redefining what constitutes goal attainment.

The relevance and efficacy criteria guide, but are also shaped by, addressees' perceptions of whether continuing to participate in the authority relationship is worthwhile. These perceptions change over time, as contention about what should be regarded as relevant and efficacious proceeds. Assessment of an instruction's relevance is based on a prospective assessment of whether following the instruction will contribute to goal attainment. The relevance criteria reflect shared beliefs, formed by current knowledge and recent experience, about the probability that adopting any of the known action paths will lead to goal attainment. Their substantive content thus derives from the causal beliefs about what actions will or will not contribute to desired outcomes that prevail among authority holders and addressees at any time.

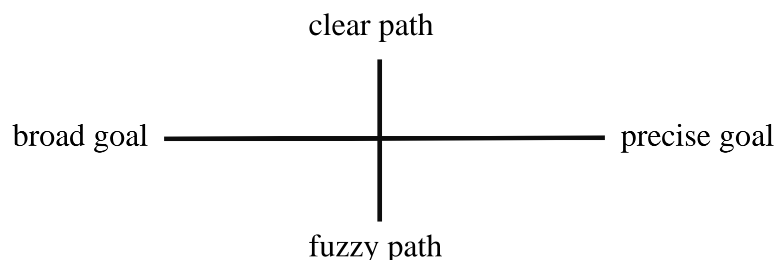
Yet these beliefs about the relation between action paths and goal attainment will shift over time as experience yields more information about the success of the courses of action attempted or inspires developing new action paths. Thus the efficacy criteria are based on a retrospective assessment of whether doing as instructed has actually promoted goal attainment. Over time, then, the sense of what particular instructions are relevant and efficacious can shift, leading in the first instance to changes in recommended action paths but sometimes to redefinition of the goal, of the areas of activity instructions should cover, or both.

1. Assessing the Relevance and Efficacy of World Bank Instructions.

While the broad goal of economic development (or simply "development") has been shared by the World Bank and all of its member governments throughout the Bank's existence, both the indicators with which development is assessed and beliefs about what are the more and less efficacious action paths to development have been topics of continual contestation involving

national governments' political leaders and economic policy makers, the World Bank's leaders and staff, other IGOs' leaders and staff, academics, and development or environment-oriented NGOs and transnational advocacy coalitions. Focusing on how these arguments affect the workings of the World Bank-member government authority relationship yields greater understanding of how and to what extent borrower governments have been able to influence changes in instructions that form the World Bank's lending policies and loan decisions.

Evaluating whether there has been progress toward the goal is easier or harder depending on the specificity of the goal and the clarity of paths from actions to results. Goals can range from very broad to very precise while action paths can range from very clear to very fuzzy. This produces a four quadrant conceptual space within which the various combinations of goal type and action path type can be arrayed:



Development is a very broad goal. Yet governments, policy analysts and academic economists do possess some reasonably clear quantifiable indicators of progress toward development, including total GDP, per capita GDP, the Human Development Index, and physical qualify of life measures. Though incomplete measures each does provide a way to identify the relative success of individual countries' efforts to develop. There has been some shift in mix of indicators used over the last 70 years. Per capita GDP, which corrects for population size, has been used continuously and is a useful shorthand for classifying countries by levels of development. However is does not capture information about unpaid work, such as child rearing

and maintaining households, or paid work outside the formal economy of recorded employment. These limitations inspired search for other measures, and some alternatives became more feasible in the 1980s when reasonably systematic household consumption surveys began to be carried out and provided an "on the ground" supplement to the increasingly standardized and consistent country statistical data on life outcomes such as literacy, education levels, health, births and deaths. In 1990, the UN Development Programme (UNDP) was able to offer a Human Development Index using per capita GDP, literary rates, and life expectancy in a single-number format that directly challenged using GDP per capita alone. Ten years later, the UN Millennium Development Goals were stated as the percentage of the population experiencing some life outcome (such as infant mortality) or having access to basic material things (such as safe drinking water or vaccination against diseases). The Sustainable Development Goals are stated in similar fashion, adding indicators of environmental conditions to the mix. When economic inequality became a distinct concern in the late 2000s, reliance on the single-number Gini Index was superseded by comparing the income shares of each quintile of the population from poorest 20% to wealthiest 20%, with "the 1%" at the top separated out to emphasize how narrowly economic growth has been shared in some countries.

It could always be argued that loans provided by the World Bank through its standard market-rate lending ("Bank loans") or its lower interest rate loans through its International Development Association affiliate ("IDA loans") was not a significant factor in development. In the 1950s and 1960s, all official development aid – bilateral as well as multilateral – comprised some 60% of the foreign finance coming to developing countries. The fraction fell to about 20% in the early 1980s (Reddy 1985: 3-4) then settled after 1990 at about 30% (OECD 2016: Table 2). Bank and IDA loans were only a part of that flow. In 1983, World Bank and IDA loans

covered less than 5% of members' external finance needs (Hoguet 1983: 318). In the mid-1990s their total was equivalent to 10-15% of annual payments for imports in the smallest countries, 2-5% of annual investment needs for middle-sized countries, and a "drop in an ocean of need" for the largest low income countries (Kapur, Lewis, and Webb 1997: 2). Yet there have been occasions when Bank or IDA loans were important. In 1982 IDA loans provided 13% of all domestic investment in Bangladesh and 10% in Burundi (Pennant-Rea 1982: 46). Even where the overall percentages were lower, Bank or IDA loans were often the only way some developing countries could finance large projects or programs requiring long-term finance because of their weak credit rating in private markets. In addition, the World Bank has had a prominence in defining how multilateral development aid should work that has made contenting over its loan conditions worthwhile.

Assessment of the relevance and efficacy of World Bank lending has involved two continuing questions: the best balance between project and program lending, and whether the policy conditions attached to World Bank, IDA, or IMF loans enhance or hinder prospects for development. The debate has been vigorous, and various conclusions have been advanced with considerable confidence. However it has not produced an expert consensus about the relative efficacy of different action paths sufficient to create shared beliefs about efficacy (see, e.g., Boone 1996; Easterly 2003; Hansen and Tarp 2000; Hudson and Moseley 2001; Kusick and Tobin 2006; Bearce and Tirone 2010). This is not surprising since analysts in different parts of the political spectrum formulate their evaluations from different ideological and theoretical starting points. Yet there are also two other obstacles to consensus that operate independently of political ideologies or economic theories.

The first is the fungibility of money. Receiving Bank or IDA loan money frees up an equivalent amount of money from other sources that a borrower government can use for other purposes (Rosenstein-Rodin, 1943; Pack and Pack 1990; Boone 1996; Feyzioglu, Swaroop and Zhu 1998; Bader and Faust 2014). Though many current discussions of fungiblity focus on how aid helps governments use that other money to reward supporters and stay in power (e.g. Moss, Pettersson and Van de Waal 2008) or to persist in policies that are not working, that freed-up money can be used for a wide variety of purposes ranging from armed conflict to enhanced social programs. Since each government decides for itself how to exploit fungibility, there is no way to draw general conclusions about its effect on pursuing development.

The second obstacle arises from technical problems in using statistical methods of analysis to assessing change in economic conditions. As William Easterly – an analyst skeptical of most claims about the efficacy of aid – noted, it is very difficult to identify causal mechanisms via statistical analysis because the number of factors identified as potential causes makes moving from correlation to cause very difficult (Easterly 2008: 18).

2. Stages in the Debates over Relevance and Efficacy

Neither the fungibility nor the causal analysis difficulties stand in the way of analyzing borrower government influence over the content of World Bank conditions. There is good evidence of negotiating at particular times. There is also good evidence for borrower government engagement in the formulation of changes in relevance and efficacy criteria guiding Word Bank relations with borrower members over time. The pace of change was fairly slow through the mid-1980s, accelerated significantly in the late 1980s and early 1990s, then dropped to a less rapid pace after 1997.

2.1. Differences of View but Relatively Low Contention, 1945-1965

Three basic visions of how to best promote development competed between 1945 and roughly 1965: 1) a market-centered mainly private enterprise vision strongest in the USA and West Germany, 2) a mixed economy version combining indicative planning with a combination of private and state-owned enterprise strongest in the UK and France, and 3) a centrally-planned economy with all production and distribution accomplished through state enterprise in the Soviet Union. Each offered different answers to three key questions for development. Both the market-focused and mixed economy Western visions rested on assumptions that a significant amount of production and distribution should be allowed to proceed without direct government command, the benefits of economic growth would be widely – even if unevenly – distributed, and those benefits would be greatest if national economies were linked together through trade and investment. The Soviet vision assumed that central planning, reliance on state enterprises, and carefully limited linkages between economies would be most conducive to growth and also reduce economic inequality and assure eradication of poverty. The World Bank was clearly aligned with the Western visions, providing loans and loan instructions compatible with either the market or the mixed economy versions.

A fourth vision of promoting development through import substituting industrialization (ISI) was elaborated in the UN Economic Commission for Latin America under the leadership of Raul Prebisch (Prebisch 1950) and similar thinking influenced African governments' development policies in the 1960s (Frieden 2006: 309-312 and 317-320; Ake 2001: 219-20). The action path it suggested combined limiting trade connections to other economies with establishing extensive state enterprise in manufacturing and other key sectors to produce desired manufactured goods at home. The differences between ISI and Western models were real, but

not sources of serious contention in the 1960s because of two assumptions among Western governments and academic economists. First, all Western governments shared the Keynesian consensus that governments should engage in macroeconomic management, and many went further by running a mixed economy; thus the contrast among government policies short of central planning was perceived as a difference emphasis rather than a difference in type of policy. Second, academic economists and their counterparts in the World Bank and government development agencies also agreed that governments of developing countries would need to take on a significant coordinating role until industrialization was well underway (Moulton 1978: 1020 notes the similar views then prevailing in the US Agency for International Development and among the Indian and Pakistani economists guiding many World Bank activities). Thus there was room for accommodating many of the points raised by ISI advocates.

The World Bank did indicate some clear preferences regarding borrowers' economic choices. In the 1950s these included remaining creditworthy by following "generally acceptable policies" including elimination of regressive taxes, public sector waste, and corruption; fiscal and monetary policy geared to keeping inflation low, avoiding high tariffs and other forms of economic nationalism, having a "suitable" development program, and also putting their own resources to work through counterpart contributions. In the 1960s Bank preferences included stronger emphasis on opening up to more international trade and, with project loans, some sector-specific conditions like rules for setting rates for power produced in Bank-financed electricity generation plants (Narasimhan 1989: 19-20). Loan negotiations and the broader policy dialogues between senior World Bank staff and borrower governments that began in 1968 were not particularly contentious because of the Bank's willingness to accept both market and mixed economy approaches. Differences in the economic growth rates of different countries and

regions were not as great as they would become later, meaning that there were no clear indications of the relative efficacy of different the action paths adopted under different policy approaches.

Lack of contention over paths to development did not mean borrowers were fully content with World Bank instructions. While most borrowers accepted that the World Bank would only fund specific projects, borrower governments viewed the process of securing a loan complex and demanding. The detailed notes on individual loan discussions in early World Bank *Annual Reports* reveal that getting from outlining the initial idea for a project to securing Board approval of a loan to finance it took at least three years. As one developing country diplomat put it in the mid-1950s, borrowing countries "stand like prisoners in the dock," questioned intensely about a proposed project and its feasibility (quoted in Heilbroner 1956: 20). They also complained that financial criteria were applied too stringently and policy conditions leaned too far in the direction of keeping inflation law (Morris 1963: 62-63). Other borrower government complaints about lending reflected differences in middle income and low income country needs. Middle income borrowers thought the Bank emphasized low income country needs too much, while many low income ones wanted more financing for urban housing projects and agriculture than the Bank was providing (Morris 1963: 63).

Low income borrower concerns began to be addressed more directly as the Bank started paying more attention to poverty reduction under Robert McNamara's leadership (Morawetz 1977; Moseley Harrington and Toye 1995). Though the major shareholder governments were not particularly enthusiastic (Morawetz 1977) borrower governments strongly supported the Bank's decisions to allocate some 25% of total loan money to program loans (G24 1977: par. 5ii; Narasimhan 1989: 30). For their part, Bank staff saw it as giving more scope for poverty-

reduction considerations and as a way to loosen the financial requirements of project lending in sub-Saharan Africa where the economic downturn after the 1973 oil price increases made it more difficult to identify projects there that would be self-supporting even at IDA's subsidized interest rates (Mosley, Harrington, and Toye 1995: 22). However it is not clear that program loans were easier to arrange; only 26 were approved before 1980 (Pennant-Rea 1982: 46).

2.2 Oil Prices, Debt Crisis and Sharp Contention 1973-1986

Persistence of much higher fuel costs after the quadrupling of crude oil prices in 1973 had broad economic effects that inspired more intense debate about the relevance and efficacy of different paths to development. OPEC's apparent success at wresting money and a degree of economic decision-making power from the Western industrial states inspired grand visions of creating a state-centric New International Economic Order (NIEO) with a new set of global economic institutions. In the NIEO vision, governments, not "the market" (the aggregate of private decisions) would determine which sectors to encourage and set politically sensitive prices, commodity cartels or other agreements would solve the problem of falling prices for most commodities in relation to the prices of manufactured goods central to Prebisch's and dependency theorists' analyses of international trade, and major decisions about the shape of economic interconnections between countries would be made in intergovernmental forums where the G77 of developing states held a majority of the votes rather than forums like the World Bank where Western industrial countries held most of the votes.

The extent of contention became obvious during the Sixth (1974) and Seventh (1975) Special Sessions of the UN General Assembly, which were convened to consider the G77's proposals for organizing the NIEO (e.g., UN General Assembly Resolution 3281). These met as debate among academic analysts of development sharpened with Marxists (e.g., Baran 1975),

world systems theorists (e.g., Wallerstein 1974, 1979) and dependency theorists (e.g., Gunder Frank 1967; Amin 1976; Ake 1979) advocating even greater focus on self-reliant development than the structuralists around Prebisch. They did not have the field to themselves, however. Academic and policy analysis in the moderate left and the center rejected the claim that countries could only develop if they insulated themselves from the international economy. Though they did accept the general proposition that certain aspects of the international economy do favor some economies over others, they also maintained that a government's own choice of policies were at least as important in determining a country's development (e.g., Balassa, Bueno, Kuczynski, and Simonsen, 1986; Fajnzylber 1986; Johnson 1987: 127-28).

ISI as practiced in Latin America and parts of South Asia had produced a significant amount of industrialization by 1970 (Fieldhouse 1986: 152-53; Frieden 1991; Johnson 1983; Vaidyanathan 1983; helpful statistical compilation in Mitchell 1998a and b). Those governments continued to pursue ISI in the 1970s, while the dependency ideas had more influence in Africa where they meshed well with the nationalist and anti-colonialist aspirations of many African governments (Ake 2001: 219-20).

Meanwhile the World Bank continued to follow its already-established routines for loan negotiations, partly from internal beliefs about lending – the World Bank's analysts believed that many features of ISI were hobbling rather than accelerating economic growth – and partly to maintain credibility in among the international investors from whom it raised the money it used for lending. However it did shift emphasis among desired outcomes by paying more attention to poverty reduction and formally adopting a category of "program loans" more adaptable to multi-sector packages of financing to address various aspects of urban and rural poverty.

The economic challenges posed by the quadrupling of oil process in 1973 were particularly severe for developing counties that needed to import oil because OPEC members wanted payment in hard currency, which developing countries could get only by increasing their export earnings or by securing loans, initially hardened positions. Latin American governments reaffirmed their belief in ISI; African governments reaffirmed theirs in state-led central planning, and both continued to use the array of price controls, allocation of foreign exchange and credit according to government-set priorities, and heavy reliance on state-owned enterprises on which those paths to development were based (Frieden 1991, *).

In the 1970s many developing country governments were able to find the money through private loans, which were available because OPEC countries were putting a significant part of their higher export earnings into dollar-denominated accounts in leading Western banks. World Bank leadership shared the widespread view that this extensive private borrowing would give developing country governments time to reallocate their own investments to existing or new sectors capable of providing greater export earnings, or otherwise adjust to new economic conditions (e.g. discussion of trends in World Bank *Annual Report* 1977: 15-16). While some did adjust, many used the loans to continue the extensive importing of inputs and machinery needed to pursue import substitution industrialization.

The most public contention over action paths to development arose in Africa where little industrialization had occurred. In 1980, African governments reaffirmed their commitment to a wide range of planning, reliance on state-owned enterprises, and using revenue from agricultural exports to fund development through requiring farmers to sell their crops at government-set prices to a state marketing board that did the exporting, in their Lagos Plan for Action (UN Economic Commission for Africa 1980). A request from some African governments that World

Bank staff assess regional prospects (Pennant-Rea 1982: 38) resulted in *Accelerated Development for Sub-Saharan Africa – An Agenda for Action* (World Bank 1981), commonly known as the Berg Report after its lead author. It offered two main conclusions: first, that securing greater progress toward development will require African governments to adopt new economic policies reducing the role of state agencies and enterprises in the economy and opening the country to increased international trade, and, second, that even with changed policies African countries would need a lot more financial assistance in the medium term than they have been receiving. The first conclusion attracted much more attention than the second. Though African finance ministers called the report "useful," the planning ministers who had contributed to formulation of the Lagos Plan of Action objected vehemently. Both the OAU and the UN Economic Commission for Africa issued stinging critiques, with the OAU condemning the Report's recommendations as being "in fundamental contradiction with the political, economic, and social aspirations of Africa" (Declaration of Tripoli 1982; also see Ndegwa 1997: 190). It was also roundly criticized by representatives of OPEC countries, UNDP, UNICEF, and by Western European governments at the 1982 OECD Development Assistance Committee's High Level Meeting as failing to give enough attention to the external causes of sub-Saharan Africa's economic woes (noted in Woods 2006: 144).

Yet the Berg Report was read carefully and considered in African capitals. Julius Nyerere, the outspokenly socialist President of Tanzania, required his whole cabinet to read it and report their reactions to it (Loxley 1983: 197). Meanwhile a Uganda Study team organized by the Canadian International Development Research Centre and a 3-member "wise men's group" organized by World Bank President McNamara sought to bridge gaps by suggesting programs involving less direct state steering than proposed in the Lagos Plan, but more attention

to the need for some forms of state regulation and programs to mitigate the distributional effects of adjustment than contained in the Berg Report (Woods 2006: 145).

Western government hostility to the NIEO and statements like the Lagos Plan was intensified by the changes in economic thinking then gaining more influence with policy makers. The oil price increases of the 1970s had confounded Keynesian economic analysis by having both inflationary and deflationary effects. The price increases intensified the inflation that had originated in overly expansionary US fiscal and monetary policy in the late 1960s, while also causing recession because demand for oil remained high enough despite the 1973 quadrupling of price to reduce economic activity in nearly all sectors of national economies. This combination, quickly labeled "stagflation" was something not foreseen in Keynesian theory, and reduced confidence in the overall Keynesian approach (Olson 1982: 192; Heilbroner and Milberg 1995: 14). This opened opportunities for a new generation of neoclassical economists, whom Kahler (1990) called the "neoorthodox" to distinguish them from advocates of what became known as "neoliberal" policies, to acquire policy influence. Rather than follow the older tendency to treat macroeconomics and microeconomics as distinct elements of economic activity at different levels of aggregation, they connected the two by looking for the microfoundations of macro patterns (Lucas 1972 is often identified as the initiator; also see Lucas and Sargent 1979). They were very skeptical of government-run economic activity and far more confident of the self-regulating nature of markets than Keynesians, Fabians, or proponents of mixed economies. In the realm of economic policy, their most significant idea was replacing Keynesian macroeconomic management in favor of a broadly monetarist approach emphasizing the unhindered operation of markets. This conclusion rested on two main assumptions, that inflation is caused by an over-large money supply, and that every economy has a "natural rate of

unemployment," a minimum that cannot be altered through Keynesian macroeconomic managing (Phelps 1968 and more influentially Friedman 1968). As "stagflation" persisted, advocates of this approach reached greater audiences with their increasingly trenchant critiques of both Keynesian macroeconomic management and mixed economy policies.

The new influences became highly visible in the policies of the Thatcher government in the UK after 1979 and the Reagan administration in the USA after 1981. Both adopted highly market-oriented policies making a sharp break from the mixed economy approach in the UK and acceptance of Keynesian policies in the USA. The West German government under Helmut Kohl moved to a lesser extent in a similar direction while other Western European governments persisted with their mixed economy visions. Policy debates in European Economic Community member states were affected by negotiations regarding the practical implications of their commitment to creating a single internal market and a common currency by 1992, which created pressures to allow markets greater scope (summary in Pinder and Usherwood 2007: chapter 4). With appointment of investment banker A.W. Clausen as President of the World Bank in 1981 and academic Anne Kruger as Chief Economist in 1982, outside perceptions that the Word Bank would be a strong supporter of Thatcher-Reagan style policies increased (Ferreira and Keeley 2000: 176).

Yet inside the World Bank there was considerable debate in which borrower governments had important parts. The Structural Adjustment Loans first offered in 1980 were a new venture into program lending for broad purposes rather than specific projects, and came with macro-level and meso-level policy conditions that inspired criticism from the academics and UN aid agencies as overly "neoliberal." Developing country governments joined this chorus of criticism, though without using the word "neoliberal." Meanwhile, borrow governments declined to take the loans

even though their access to convenient financing from private Western banks dried up when real interest rates moved from -0.6% in 1977 to 12.8% in 1981 (Dornbusch and Fischer 1987) as a result of major Western governments' efforts to bring down inflation. The private banks had protected themselves against this possibility by shifting to floating interest rates. Developing countries were caught because many were rolling over rather than repaying loans. The new interest rates suddenly and significantly increased their debt service burdens, and their financial situation became much worse when private lending fell off and then "stopped, just simply stopped" in 1984 (Brau 1986: 38). Even with debt restructuring agreements in place by 1987, many commentators considered the 1980s a "lost decade" for development because of these financial disruptions.

Despite these financial straits, borrower governments showed little interest in Structural Adjustment Loans because of policy conditions requiring reduction of the government's direct role in the economy. Only 20 were finalized between 1980 and 1983 (Hoguet 1983: 319). This pushback inspired the World Bank's 1983 shift towards more focused Sectoral Adjustment Loans (Petersmann 1988: 51) which borrowers were more willing to take (World Bank 1986; Jayarajah and Branson 1995; Owusu 2003: 159). For borrowers, the conditions attached to these new type of loans had the positive feature of distinguishing more clearly between government programs providing services to people and other government spending, but also the negative feature of continued focus on reducing government payrolls and the extent of state-owned enterprise. Borrower governments thus kept up their complaints about World Bank policy conditions (e.g., the 1986 UN General Assembly Special Session on Africa; comments on the Baker Plan in G24 1986a: par. 8; G24 1987: par 45-51).

Structural Adjustment Loans and Sectoral Adjustment Loans were lumped together in the stinging critiques of World Bank lending by leftist economists and a chorus of UN Aid Agencies led by UNICEF. Both streams of critique devoted considerable attention to the negative impact on the poorest parts of developing country populations, something that could now be analyzed in more detail as economists had acquired better analytical tools for assessing the distributional effects of aid in the mid-1980s (see Bourguignon, de Melo, and Morrisson 1991) and could analyze the impact of World Bank lending in new ways (e.g., Addison and Demery 1985). This round of discussion did not challenge the conclusion that outside funds, including Word Bank and IDA loans, aided growth, but did confirm the negative effects of then-current aid on the poor (e.g., Pastor 1987). By the time UNICEF issued *Adjustment with a Human Face* (Cornea, Jolly, and Stewart 1987), bringing the income distribution critique of structural adjustment policies to wider audiences, other economists – including some working for the World Bank – were reaching similar conclusions (e.g. Helleiner 1987; Hannevik 1987; Bassett 1988; Hodges 1988).

Meanwhile, a higher level internal change was underway in the World Bank. Poverty reduction was again moved up among Bank priorities, particularly after former US Congressman Barber Conable replaced Clausen as president in July 1986 (Kanbur and Vines 2000: 98), although outside commentators did not perceive this until "Poverty" was the main theme of the Bank's 1990 *World Development Report*. More visible was US Treasury Secretary James Baker's reference to "adjustment with growth" in October 1985, which suggested that the US government was moderating its policy line. This provided a wider opening for questioning the policy prescriptions guiding the design of all forms of structural adjustment lending (Kahler 1990: 47-48).

Borrower governments were able to do more than complain. As later studies revealed (World Bank 1988; Moseley, Harrigan and Toye 1991; Killick 1998), there was more negotiating about loan conditions going on than most outside observers perceived at the time. Borrower government positions on several matters were supported by the smaller Western industrial states (James 1996: 525) as well as UN development agencies. Many borrower governments could also draw on their overall ties to major Western states or their ability to play off the Cold War blocs against one another to keep loan money flowing. They also benefitted from the World Bank's need to keep money flowing, resulting partly from need to sustain its own activities (Ranis 1997: 79-81; Gilbert and Vines 2000: 22-23; Ranis 2006) and partly from realization that suspending or terminating loan disbursements on project loans would undo intended effects by seriously disrupting their progress.

Nor did back-and-forth between the World Bank and borrowers end when the loan agreement was signed. Borrowers could, and did, fail to meet conditions they had accepted (Collier 2000: 301-03), either because initial acceptance was reluctant or because later events outside borrower government control prevented full compliance. With any condition not specified as a Prior Action (a category the Bank first used in 2000), Bank management could respond to failure to meet a condition by 1) waiving it, 2) extending the deadline for meeting it, 3) replacing the current loan with a new loan having different conditions, or 4) cancel disbursement of the remainder of the loan. Only the third and fourth interrupt cash flows. The third is mildly punitive because it delays money payments and can affect project or program completion timelines; the fourth is strongly punitive because expected money is no longer available. As the decade of the 1980s proceeded, generous interpretation of these possibilities

came to predominate because the World Bank realized that political factors outside borrower control often hobbled performance (Killick 1995).

Though a cursory reading of the public contentions between 1974 and 1985 suggested that government following ISI policies were strongly committed to them, some development economists (Diaz-Alejandro 1965; Little, Scitovsky, and Scott 1970; Balassa and others 1971; Corden 1974) were already expressing doubts about their viability. In the mid-1980s developing country government officials began to join the doubters (Fajnzylber 1986; debates in UN General Assembly 1986; G24 1987: par 31). Several more specific policies commonly pursued by developing countries – overvaluing the national currency, tolerating low efficiency in state enterprises for the sake of other policy goals, pricing policies favoring urban over rural areas, and permitting extensive rent-seeking by elites through various public sector practices were subjected to increasingly detailed domestic criticism (see Cardoso and Helwege 1992: 84-99 on Latin American experience).

2.3 Events and Reduced Contention 1988-1997

Public dissemination of comparative economic data about member countries' economies by UN agencies, the World Bank, and research institutes also began having an effect in the mid-1980s. Anyone paying attention, including borrower governments, found it difficult to ignore the differences in growth rates between countries with inward-oriented and outward-oriented economies shown by comparing Latin American and East Asian experience in the 1980s (Graph 1).

[Graph 1 here]

Such comparison led several governments that had been pursuing ISI to acknowledge its limits as a development strategy, and groups of economists and government officials ready to

abandon ISI emerged in several countries (Callaghy 1989; Urzúa 1997: 107-08 on Mexico; Mengisteab 1992 on some African states; Gwinne and Kay 2000 on Latin America).

These doubts were reinforced by growing realization that global economic changes were making some meso-level policies common to ISI irrelevant. Until the mid-1970s developing country governments with strong administrative capability, such as those of India and the larger Latin American countries, were confident that they could identify the best available technologies and acquire them as-needed through commercial licensing arrangements or as a condition of allowing a foreign company to establish a subsidiary in the country. As manufacturing was transformed by use of computers, computer-guided robots, and information technology, most state-owned enterprises in developing countries were unable to keep up (Bhagavan 1990) and their owner governments aware that the overall pace of technological change was accelerating (Junne 2001: 198-199). As G77 efforts to include provisions for obligatory transfer of technology to developing counties in the NIEO program foundered at the UN, developing governments realized that they would have to work with, rather than avoid, foreign corporations in industries where technology was changing rapidly.

Developing country-based economists' questioning the continued utility of ISI as an action path to development became sharper (noted in Thakur 1993; Ndegwa 1997; Junne 2001: 198). The typical industrial enterprise created under ISI policies had relatively small production runs focused on the home market. In most counties (large ones like Brazil, India, and Mexico were exceptions), this resulted in higher prices because the enterprises could not capture the full economies of scale. Most of them also needed continual supply of imported materials since the industries chosen were selected on the basis of what the country was importing rather than what could be produced wholly or mainly using local materials. As balances of payments weakened

in the 1970s, partly to pay for oil and partly because of lower commodity export prices, financing this more expensive local production became more difficult. By the mid-1980s, governments of countries with relatively large middle classes were also feeling domestic pressures to change policy from consumers desiring lower consumer goods prices and from local entrepreneurs interested in developing their own exporting enterprises (Junne 2001: 198).

Academic debates about economic theory were simultaneously creating room for developing new meso-level propositions about development. Marxist, dependency, and world-systems theories were all focused on national or global economic system level propositions and tended to pay less attention to developing midlevel analytical propositions sufficiently clear to guide economic policy. Karl Marx had relied heavily on the classical economics of his time when developing his economic theories (Samuelson 1967) while later Marxists regarded meso-level propositions about running capitalist market economies (noted in Robinson 1971) or largely agrarian economies (noted in Ake 2001) as irrelevant to socialist economies. Dependency theory did identify a number of macro-level steps countries should take – de-link from the West, overthrow elites insufficiently attuned to local aspirations, prevent intrusion of consumer culture influences – but provided little guidance about actually running an economy (a point acknowledged by Di Palma 1981: chapter 1; Gunder Frank 1981: 127; Akiapor 1985: 551), leaving economic policy makers to rely on broadly neoclassical economic analysis (Hirschman 1986; Flynn 1986).

These acknowledgements came at a time when policy ideas emanating from behavioral and institutionalist economics provided denser sets of midlevel theoretical propositions that challenged strident neoliberalism, and from new neoclassical economic theorizing that supported Market-oriented but not non-neoliberal policy conclusions. The endogenous growth theory first

advanced in the late 1980s (e.g., Lucas 1988; Romer 1990) included technological advances and increases in labor skill/productivity as independent contributors to growth, a conclusion supported by comparing the time needed to double national income in the early phases of industrialization from 60 years in the UK (1780-1840) to some ten years in South Korea (1966-1977) and China (1977-1987) (*The Economist* 1991). By suggesting that countries need to keep up with the technological frontier and continually invest in enhancing worker skills, a neoclassical path to advice similar to that of human capacities approaches to development came into being.

Other academic work supported doubts that the insulation of local markets needed for most versions of ISI was good for an economy in the long run. Some studies confirmed the longstanding neoclassical claim that interest rate subsidies limit growth by hobbling sectors of the economy that do not receive them. Others cast doubt on the protective tariff component of ISI by distinguishing between two phases. While a short period of tariff protection would help by insulating local firms from foreign competition as they "learn by doing" (the rationale for "infant-industry protection" going back to Alexander Hamilton 1791 and Friedrich List 1841) prolonged tariff protection hurts by allowing local firms continue inefficient operations, poor quality control, and non-responsiveness to changing customer preferences (e.g., Taylor 1998).

Thus the late 1980s were marked by some convergence between centrist and moderate left analysts and policy commentators. The unimpressive results of Chilean (1971-73) and Peruvian (1975) experiments with structuralist-inspired policies (Kahler 1990: 40 and note 20) persuaded a good number of economists from other developing countries that their country's economic problems did have internal as well as external roots, with the external ones setting outer boundaries and the mix of short-, medium-, and long-term policies adopted by the

government determining the country's actual economic path. The equally unimpressive results of neoliberal-inspired policy experiments in Chile, Argentina, and Uruguay in the early 1980s created new openings for critique going too far in reducing regulation of private enterprise from the center and center-right finding echoes in new interpretations of neoclassical economic theory (Kahler 1990: 48-52).

Meanwhile, a significant number of observers (e.g. Callaghy 1989; Deyo 1987; Wade 1989, 1990), were pointing out that East Asian governments were not following policies based on either structuralist/dependency or neoclassical theory. Inspired by Japan's post-1945 success, which had been the subject of some attention in the West (e.g. Vogel 1979; Johnson 1982), these governments pursued what Johnson (1995) called a "developmental state" vision of export-led growth. Rather than leaving private firms to their own devices, the government uses tax relief, subsidies, and other industrial policy measures (e.g., Hughes 1988; White 1988), to secure higher GDP by pushing them towards production for export while limiting the extent of income inequality (e.g., Bates 1989; Gereffi and Wyman 1990). World Bank reports downplayed the developmental state (Wade 1996), and whatever attention it might have gotten was reduced by revelations of slow growth or even shrinkage in Soviet-style centrally-planned economies followed by the political collapse of the Soviet bloc and the of the USSR itself.

The Chinese Communist Party followed Soviet developments closely and in the late 1980s began allowing competition between state-owned firms and market-set pricing so that it could maintain its monopoly of political control (Brandt and Rawski 2008). Latin American governments also began adopting new policies inspired by economic rethinking (e.g., suggestions in Balassa, Bueno, Kuczynski, and Simonsen, 1986). Some structuralists were developing what they called a "neostructuralist analysis" that gave more attention to domestic

sources of economic inefficiency (e.g., UN Economic Commission for Latin America and the Caribbean 1992; Sunkel 1993; also discussed in Gwinne and Kay 2000). The UN Economic Commission for Africa, which continued to provide African governments with a forum for discussing common economic challenges, produced a new statement on economic policy (UN Economic Commission for Africa 1989) reflecting a very different orientation than had prevailed in the Lagos Plan. While emphasizing the importance of not going too far in reliance on international trade for economic growth or in reduction of state enterprises, it did accept the basic neoclassical contention that African economies needed some restructuring. By 1985 even Soviet advisers were giving developing countries advice little different from that provided by the World Bank (e.g., 1985 Soviet memo for the Marxist government of Ethiopia quoted in Henze 1988).

Had arguments remained focused on how to best promote economic growth in developing countries, there might have been more room for considering the East Asian approach. However the implosion of the Soviet bloc and of the USSR itself emboldened the growing community of avowedly neoliberal economists around the world. Though few phrased it as vividly as Margaret Thatcher's often-quoted "there is no alternative" (see Margaret Thatcher Foundation 2016) they did claim that no other policy choices would be as good for any country at any income level as a combination of market economy, lightly-regulated private enterprise, and openness to international trade and investment.

Thoughts that import substituting industrialization and export-led growth could be regarded as complementary strategies to be used at different times in a country's economic development (e.g., Gereffi 1990: 22; Bradford 1990: 32-36) also attracted little attention. When Japan moved from sustained growth to persisting stagnation after domestic real estate and financial bubbles burst in the early 1990s (e.g., Krugman 1994; Pempel 1998), existing questions

about export-led growth (e.g., Ram 1987; Klein 1990) were expressed more widely, particularly by advocates of following the rival strategy of domestic demand-led growth (DDLG) (e.g., Medina-Smith 2000; Felipe and Lim 2005).

The transformed policy climate of the immediate post-Cold War period was most vividly expressed in the notion of a "Washington Consensus" (Williamson 1990) on how to best promote development. Though many mid-level aspects domestic economic policy remained open to debate, several longstanding contentions seemed to have been settled in conclusions that developing countries would be better off if they 1) linked up with the international economy, 2) encouraged private enterprise, 3) improved protection of private property rights, 4) reduced reliance on state-owned enterprises, and 5) removed tax credits, subsidies, and other measures that distort prices and interest rates. Even the UNDP, which had often endorsed self-reliance policies in the past, was suggesting that "poor countries can leapfrog several decades of development if they combine their low wages with basic education, technical education, and export-led growth, taking advantage of the rapidly opening global markets" (UNDP 1998: 10).

This shift in beliefs about the relative efficacy of meso level action paths did not affect the ongoing shift in development thinking towards the importance of poverty reduction. Starting in 1990 the UNDP's Human Development Index provided a new focus for long-standing efforts to widen assessment of progress toward development by including how well economic growth improved the lives of ordinary people as emphasized by advocates "basic human needs" (e.g., Stewart 1989) and "human development" (Sen 1985; Haq and Kirdir 1986) approaches. This was reflected in a significant reformulation of World Bank program lending in the early 1990 that replaced both SALs and SECALs with Development Policy Loans. Under this program,

borrower governments were expected to indicate both their expectations regarding economic growth and measures they would take to reduce poverty in their Policy Framework Papers.

By the mid-1990s household income data permitted assessing the impact aid, including Bank and IDA loans lending on income distribution in borrower countries. Ferreira (1995) and Ferreira and Keeley (2000: 2 and 189) identified three patterns of country experience with structural adjustment lending. Some experienced no shift into a sustained higher growth trajectory; others shifted into a growth pattern reducing extreme poverty but not significantly affecting overall inequality; yet others shifted into a broadly beneficial growth pattern after a period of reduced living standards among the bulk of the population. World Bank research economists' own studies (e.g., Kanbur 1990; Jayaraja and Branson, 1995) confirmed that several years often passed between starting structural adjustment programs and onset of higher growth rates. Some studies demonstrated correlations between growth and improved social indicators like infant mortality in most developing countries (e.g., Bruno, Ravallion, and Squire 1998), suggesting that growth is often needed for improvement in those areas. Arguments for paying attention to poverty reduction were also strengthened by emerging endogenous growth models that turned the causal arrow around to claim that extensive poverty and steep inequality inhibit economic growth while provision of basic social services – health care, education, safe water, and adequate housing – to all promotes growth (e.g., Strauss and Thomas 1997; Bourgignon, Chong, Hentschel and Saavedra 2003).

2.4 Nonstate Actors

Different types of nonstate actors joined the arguments about defining development at different times. Academic economists, research institutes, and policy think tanks were all active in discussions of development from the start. Transnational NGOs and advocacy coalitions

interested in advancing environmental, social, and human rights concerns through development aid became active in the 1970s and sought to get their views incorporated into World Bank loan conditions. These efforts have involved discussions with and public campaigns against the World Bank, building coalitions between NGOs based in western countries and NGOs based in developing countries, lobbying borrower governments, and lobbying major shareholder governments. They have had some effect on World Bank activity, though the extent of that effect has been determined in significant part by governments' reactions to the advocacy. World Bank leadership has varied in its receptivity to their ideas while member governments' reactions have ranged from willing to listen (examples below) to actively seeking to limit or eliminate their activity (examples in Igoe and Kelsall 2005; Heiss and Kelley 2017; Fu 2017).

Social concerns became easiest to incorporate into World Bank loan conditions once poverty reduction became a higher priority goal in the 1990s because poverty reduction became redefined to include promoting gender equity, extending the benefits of development to marginalized groups, and reducing urban-rural infrastructure and social services gaps. In the 1990s many borrower governments regarded loans for expanding social services as "second best" to the infrastructure projects they really wanted to pursue, but the intensity of controversy over large infrastructure projects meant that they realized it would be easier to get approval for these kinds of loans (Lyne, Nelson, and Tierney 2009: 420). Yet they also endorsed paying attention to social programs (e.g., G24 1991: par 39 and 43; G24 1995: par. 19).

The meshing of poverty-reduction and social concerns was particularly visible during negotiation of the 10th (1993) 12th (1999), and 13th (2002) IDA replenishments in which NGOs lobbied member governments supplying the money to support directing IDA loans to countries pursuing effective poverty reduction efforts (Clegg 2013: 48). It continued to be reflected

discussions of among economists (see Mosley, Hudson and Verschoor, 2004) and advocacy groups (e.g. Action Aid 2004; Eurodad 2006) suggesting that the World Bank should drop most of its economic policy conditions but require borrowers to maintain social spending even during economic downturns.

Incorporating environmental concerns inspired much more contention. As environmentalist campaigns gathered momentum in the early to mid-1980s, borrower governments reacted as negatively to environmental conditions as they did to other policy conditions (e.g. G24 1982: par. 8; G24 1986: par. 28; G24 1987: par. 34). This chilly recepetion did not discourage transnational campaigning, which began with efforts to get the World Bank to strengthen the environmental guidelines it had adopted in the early 1980s (policies and dates of adoption noted in Fox and Brown 1998: 506) and soon spread to seeking significant changes in large projects with obvious environmental effects (see table of cases in Fox and Brown 1998: 500-505).

Advocacy coalitions also used the need for legislative approval of money for the periodic replenishments of IDA funds in the leading donor countries to gain leverage over Bank policies. In 1989 they persuaded some the US Congress and some other legislatures to condition funding the 9th IDA replenishment on tightening and more consistently implementing Bank policies intended to reduce the social dislocations and environmental impacts of large infrastructure projects. The US Congress was also persuaded to maintain the pressure by holding back 25% of the US share of the Bank's 1989 general capital increase (Bowles and Kormos 1995: 793) and the third year of funding for the 10th IDA replenishment in 1992 (Udall 1998: 402-403).

Most of these efforts were pursued on a project-by-project basis, with different coalitions of campaigning partners depending on the borrowing country and the type of project involved.

In this period, borrower government resistance reflected the widely-shared G77 perception that environmental concerns were simply another way to limit their prospects for industrialization. Not until preparations for the UN's 1992 Conference on Development and Environment were underway were that the issue was framed in ways that allayed these concerns. However, borrow governments were still interested in pursuing their major projects, as demonstrated by the very public controversies over Bank loans for the Planaflora (Rondônia Natural Resources Management Plan) project in Brazil in 1990-96 and the Narmada River Dam Project (more often called the Sardar Sarovar Dam Controversy after the largest of the dams) in India to build hydroelectric facilities and reservoirs for irrigation systems in 1991-95.

Both NGO campaigners and borrower governments found supporters in different parts of the World Bank staff. This was most obvious in arguments over the road construction through a remote and undisturbed area of the Himalayas associated with the Arun III Dam in Nepal. The project was criticized on environmental, social (impact on indigenous populations), and economic grounds (an overly large project dependent on sales of electricity to neighboring India) and in the course of the arguments the Bank's chief manager for health, education, and population projects in Nepal took early retirement to publicly campaign against the project while the vice president for Asia argued inside that abandoning the project would signal that World Bank could not support major infrastructure projects at a time when major borrowers were very interested in them. The argument was ended in 1995 when newly-arrived Bank president Wolfensohn decided to abandon the project (Rich 2002: 29).

By the late 1990s, it was clear that larger borrowing countries could have the last say in these controversies. Brazilian and Indian government decisions were the main shapers of the Planaflora and Narmada Dam Projects. China very vocally withdrew its application for World

Bank financing towards the cost of the Three Gorges Dam project. A few of the larger borrower governments openly opposed advocacy coalition participation in infrastructure lending (Brazilian President Cardoso's comments reported in *Folha de Sao Paulo*, 10 July 1999: 3, quoted in Fox 2002: 157, note 35* and Chinese government statement quoted in Roos 2011: 479). Since few other sources of multilateral or single-country development finance imposed environmental policy conditions (Wade 2004), and several middle income borrowers also had access to private finance, China had no difficulty replacing the Bank loans (McDonald-Wilmsen and Webber 2010: *). In September 1997, the Brazilian and Indian Executive Directors were able to rally enough votes from Executive Directors representing other borrowers, France, and Italy to defeat a proposal that the World Bank Inspection Panel investigate claims regarding violation of resettlement policies relating to the Itaparca Dam project in Brazil (Fox 2002: 157-58).

The extent of borrower government pushback against environmental and resettlement conditions on infrastructure lending was not apparent from the total volume of World Bank lending, which was maintained by a stream of loans to Eastern European and former Soviet states, but is revealed in the details of loan activity in the Bank's Annual Reports (Graph 2).

[Graph 2 here]

While World Bank management took steps to lessen the distance between its loan conditions and middle income borrowers' desires (see discussion of the Bank's Strategic Compact with borrowers summarized in *World Bank Annual Report 1998*: 3), NGOs and transnational advocacy coalitions remained active, keeping up the pressure on the World Bank to revise its policies and develop more transparent processes of receiving and evaluating the merits of local complaints about particular program or project loans (Fox and Brown, eds 1998; Gutner 2005; McDonald and Wilmsen 2010). An opportunity for local nonstate actors to get involved

opened up in 1999 when the World Bank modified the process of consultation with borrower governments leading to what were now called Poverty Reduction Strategy Papers to include some consultation with other local stakeholders in 1999. Borrower governments did not always like the process but some were able to use it to challenge Bank suggestions and negotiate revised loan terms (Gulrajani 2007: 58-59) while governments already doing more consultation with civil society groups, such as those of Indonesia, Bolivia now had international-level endorsement of that activity. Soon notions of participation were expanded to the process of formulating particular projects to be financed by Bank or IDA loans (Clegg 2013: 121-122). Some borrowers accepted these new expectations, but others did not. Critics on the left were unimpressed, regarding the whole PSRP exercise as a way to ignore the need for far-reaching redistribution of land and income, and greater enhancement of the rights of labor and marginalized groups (e.g., Cooke 2005: 261).

2.5 After the Asian Crisis

[This section will need revision to focus on the tapering of World Bank ability to impose conditions so that post-2008 can be eliminated and the paper go to the conclusion.]

The Asian Financial Crisis of 1997-98 inspired another round of debate about what combination of general economic policies and programs addressing human needs should guide development. As most prominently evidenced by Joseph's Stiglitz's appointment as Chief Economist, the World Bank was not strongly neoliberal in outlook. Stiglitz joined in the controversies over IMF advice to Asian countries (including borrower government critiques expressed in G24 2000: par. 19; G24 2001: par. 12; and G24 2002: par 19) by offering an alternative agenda for development for the 21st century (Stiglitz 1998). Though the Bank's association with such comments appeared to end when negative US government reaction to

Stiglitz's public comments led World Bank President Wolfensohn to dismiss Stiglitz in February 2000, he was only the most prominent internal advocate of avoiding the excesses of neoliberalism.

The Asian Crisis had less effect on macroeconomic debates than might have been expected for three reasons. First, there were several competing explanations of why the crisis occurred (Goldstein 1998), only some of which related directly to the relative merits of neoliberal and other approaches to national economic policy. Second, critics of neoliberal policies were not able to offer visions of plausible action-paths to development based on adopting policies of extensive protectionism and trade discrimination. Third, and most importantly, the stringent neoliberalism articulated by Thatcher and Reagan had faded even in the UK and the USA well before the Asian Crisis. The "Washington Consensus" of the early 1990s was not neoliberal in the Thatcher-Reagan sense (Williamson 2004: 2), though it is still often described that way. Its suggestions were open to varying interpretations by governments and other actors (Naim 2000), leaving room for lightly regulated market economies, more extensively regulated market economies, mixed economies, and export-led growth.

With better data available, academic researchers and policy groups were focusing more at the meso level, on the impact of specific policies and institutional arrangements on development. The results of this round of inquiry provided challenge to earlier conclusions (e,g, Mosely, Herrington and Toye 1995) that lax enforcement of conditions had been the primary reason for so little change. Rather, rates of compliance were found to depend on the type of policy involved. An IMF study (IMF 2001) indicated that borrowers' efforts depended partly on the type of condition involved, with 57% of conditions regarding pension system reform or reorganization of state-owned enterprises and 47% of those related to privatization fulfilled in

time. Trade policy conditions also elicited a high rate of compliance (Krueger and Rajapatirana 1999). Other inquiries indicated a basic political lesson: that the extent and intensity of domestic opposition to the type of change being sought affected compliance (e.g., Ivanova et al. 2003; Mayer and Mourmouras 2008). Stone (2002), Mercer-Blackman and Unigovskaya (2004), and Pop-Eleches (2008) all indicated that full privatization was the least likely change because the relatively long time involved in preparing for sale of state-owned enterprises gives domestic opponents more opportunity to organize political counter-pressures.

The World Bank's own *Assessing Aid* (1998) study went in a somewhat different direction by suggesting that aid was more effective when borrower governments chose certain policies and built up strong administrative institutions, a conclusion broadly supported by two later studies (Burnside and Dollar 2000; Collier and Dollar 2001). Though others challenged claims that countries with "good policies" experienced higher growth rates (Hansen and Tarp 2001; Easterly, Levine and Roodman 2003; Ram 2004), they did not challenge arguments that successful economic reform requires strong commitment by governments and significant domestic constituencies to accomplishing it. However, many low income country borrower governments remained hobbled by lack of sufficient analytical capacity to estimate the effect of government macroeconomic policies on poverty or to their link growth strategies and poverty reduction strategies (Cheru 2006).

Adoption of the Millennium Development Goals outcome measures defined by improvements in individuals' conditions and of tracking levels of government spending benefitting the poor (e.g. the "pro-poor expenditure index" in Mosley, Hudson, and Verschoor 2004) gave further impetus to redefining how borrowers qualified for Bank or IDA loans. This discussion reinforced a shift in how the World Bank approached the question of loan conditions

that had been underway for some time. In 1977 World Bank staff had begun conducting annual Country Performance Reviews of policies and implementation efforts and taking them into some account when approving IDA loans. The Reviews were given greater weight in a 1989 decision to link total IDA lending for any one country to the results of the Review. For countries with a population between 2 and 50 million, a "high" rating opened up SDR 8.75 per capita in IDA lending, a "moderate" rating SDR 5.36 per capita, and a "low" rating SDR 2.77 per capita (Kapur, Lewis, and Webb 1997: 1152-53). In 1998 the scheme was revised and renamed the Country Policy and Institutional Assessment in 1998 (described in IDA 2003). A similar system, defining eligibility for types of loans rather than amounts of money, was adopted for borrower members eligible for a mix of Bank and IDA loans. Borrowers with policies rated "very good" were eligible for accelerated debt relief and program loans supporting policy reform and social-sector programs (education, health, and rural infrastructure), borrowers with "moderate to poor" policies were eligible for social-sector program loans, and borrowers with very weak policies eligible for only for specific project loans (Mosley, Hudson and Verschoor, 2004: F219).

While borrower governments continued to press for reduction in the number of loan conditions (e.g., G24 2000: par.15), this shift in focus changed contention over loan conditions in four ways. First, conditions were divided into two types – "prior actions" to be accomplished before any of the loan money is disbursed and "tranche release conditions" to be met before a second or later disbursement occurs, altering the balance between negotiating about conditions before the loan is signed and failing to meet already-accepted conditions. Second, it reduced the number of specific conditions attached to particular loans, as shown in table 1.

[Table 1 here]

Third, it led the World Bank to drop the types of conditions identified as be least likely to be met. It largely dropped privatization and trade liberalization from its conditions after 2003 (World Bank 2005), and rates of compliance increased (Bull and others 2006). Fourth, it focused contention on defining the components of the performance assessments, which have been revised several times (IDA 2003; Van Waeyenberge 2006; IEG 2008; Steets 2008).

The contention over components was informed by a new round of studies explicitly incorporating the political dynamics involved in implementing reform. Newer studies concluded – as critics of structural adjustment lending (e.g., Drèze and Sen 1989; Cornia and Stewart 1990) had argued – that adjustment policies would be pursued only if governments also took measures to limit the negative short to medium term impacts of reform on the poorer parts of the population (e.g., Bourguignon, Branson and de Melo 1992; Morduch 1995; Jalan and Revallion 1999). Several analysts concluded that three factors – strong government commitment to implementing economic reform, the region where the country is located, and the country's domestic political and economic conditions – were most directly correlated with getting a lagging economy back on a growth path (studies summarized in Ferreira and Keely 2000: 170-175). The new emphasis on "country ownership" shifted attention to governments' ability to maintain domestic support, setting aside older conclusions (e.g., Skidmore 1977; Frenkel and O'Donnell 1979; Diaz-Alejandro 1981) that authoritarian governments were better able to bring about serious economic change because they could insulate themselves from short-term shifts in public opinion.

The attention on and contention over meso-level design of action paths were reinforced by two World Bank initiatives in 1999. It introduced the Comprehensive Development Framework placing greater emphasis on borrower government leadership in formulating a

country's development strategy and also began requiring member governments of low income countries to develop Poverty Reduction Strategy Papers (PSRPs). A UNDP study undertaken in 2003-4 indicated that 43 of the 78 borrower governments eligible for IDA loans supported the requirement to produce a PSRP and took seriously the process of consultation with social groups that the Bank encouraged (UNDP 2004: 7). A few years later, the UN Economic Commission for Africa undertook an assessment of the new PSRP process in the 12 "pilot" countries that had begun the process in 2000 and concluded that the results of the process depended heavily on the extent to which a national government had sufficient administrative and budgeting capacity and willing to go beyond highly staged discussions with civil society and private sector stakeholders (Cheru 2006).

2.6 2008 and After [this section will be removed]

The 2008 financial crisis inspired another round of sharp criticisms of programs for dismantling state-owned enterprises and reducing government regulation of economic activity emanating from individual commentators and social movements to UN bodies (UN General Assembly 2009; Stiglitz Commission 2009). Much of the contention focused on re-regulating the financial sector and returning to the Keynesian emphasis on using government macroeconomic measures, not just fiscal policy, to temper business cycles. Both issues were taken up elsewhere – in the Group of 20 and in the Bank for International Settlement's Basel Committee on Banking Regulation.

Though China experienced reduced growth as its main customers went into recession, the contrast between moderate decreases in growth rate in the main emerging economies and steeper decreases in the established advanced economy countries, particularly after the separate Eurocrisis intensified after 2010, sparked revived interest in Asian-style state guidance of private

enterprise activity. It also inspired renewal of earlier arguments (e.g. Breslin 1999; Felipe and Lim 2005) that larger developing countries should shift form export-led to domestic demand-led growth (e.g., UNCTAD 2013; Mishra and Nancharaiah 2016).

As it became clear that emerging and developing countries were experiencing less recession and faster recovery than much of the West and Japan, they also became more attractive to private investors. In 2013 Rwanda received $3.5 billion in offers to buy the $400 million worth of bonds it wanted to sell internationally, as well as loans from China (Herbst and Mills 2013). Direct private investment in developing countries became increasingly prominent, as indicated in Table 2.

[Table 2 here]

The growth of private investment was visible even in Africa, where the respective sums in 2012 were $5.6 billion in Bank and IDA loan commitments and $46 million in private direct investments or loans (Herbst and Mills 2013), though the least developed countries as a group attracted only about 6% of the private foreign direct investment flowing to middle and low income countries (OECD 2020).

Another source of finance opened up when China and other emerging market countries began providing development finance bilaterally or through the New Development Bank ("BRICS Bank") established in 2014 and the China-led Asian Infrastructure Investment Bank established in 2015. Their statements that no policy conditions would be attached to loans appealed to continuing borrower dislike of such conditions (e.g. G24 2014: par. 17). With total Western and Japanese bilateral aid declining, the "new donors," led by China and Saudi Arabia, also became significant sources of finance (). Overall, the World Bank was becoming a much less prominent source of development finance ()

World Bank management was aware of these trends and their implications. It was acknowledging in 2009 that "Because [middle income countries] have access to alternative sources of finance and have the analytic and technical capacity to design and implement programs, they are increasingly selective about the program areas in which they invite Bank engagement" (World Bank 2009: 16). As low income countries began securing get large project loans elsewhere, even outside analysts noted that the World Bank's ability to insist on policy conditions beyond what borrowers wanted to accept for their own reasons had eroded significantly (Prizzon, Greenhill and Mustapha, 2016; Hernandez 2017).

In 2012 the World Bank adopted a new loan category, Program for Results, supporting existing government programs with loan disbursements following the meeting of specific achievement indicators. This met a borrower desire at a time when other sources of loans were increasing, and also reflected the influence of transnational network advocating "aid effectiveness" movement (Winters and Kulkarni 2014). Yet early reviews were mixed with the World Bank's Operations Policy and Country Services Department giving positive reviews (World Bank 2015: vi) and the Bank's Independent Evaluation Group (IEG) identifying several areas of weakness (IEG 2016).

3. Conclusion

The existence and content of relevance and efficacy criteria provide the addressees in an authority relationship with two ways to affect the authority holder's instructions and related actions. At any particular time relevance criteria provide guides for prospective assessment of whether instructions are based on action paths that appear likely to enhance goal attainment while efficacy criteria provide guides for retrospective assessment that following instructions actually did enhance goal attainment. They provide the bounds for negotiation of conditions

attached to any one loan. Both criteria also shift over time as changes in technology, beliefs, the relative capacity of individual participants to pursue the goal, and learning from earlier experience lead to refinement. The process of shifting shared criteria gives addressees additional opportunities to affect authority holder instructions as they participate with other actors in the process of re-setting the relevance and efficacy benchmarks.

The extent of contestation within an authority relationship over the relative merits of different action paths and therefore of addressee pushback against authority holder instructions varies with the extent of convergence between authority holder and addressee assessments of the action paths being suggested. This look at contestation between the World Bank and its borrower member governments suggests that contention will be relatively mild in two distinct situations. The first is when any of multiple action paths appear likely to produce roughly equally favorable results, and authority holder instructions accommodate addressee choices of different paths. The second is when there is strong consensus among the authority holder and all addressees that a small number of action paths are clearly superior to others, and authority holder instructions indicate those few paths.

In the 1950s and 1960s, a combination of contestation over how to best organize an economy for development – market, mixed economy, and central planning – and the apparently similar efficacy of multiple action paths prevailed. The World Bank management did have preferred policy advice, and borrower governments reacted to it with more or less enthusiasm, meaning that there was some contention over loan conditions and related policy advice existed, but it seldom produced public disagreements between the World Bank and borrower governments.

Greater turbulence in the international economy after 1971, increased assertiveness of preferred positions by many borrower governments, and sharp disagreements about handling the Third World debt crisis of the mid-1980s inspired sharper contentions. Much of this contention was fueled by strong differences in macro-level visions of paths to development while a significant portion also arose from contention over whether the primary obstacles to development existed in the structure of the international economy as a whole, or at the national level in the choices of governments and other domestic actors. Contention was fed by strong divergence of views regarding action plans, with structuralist and dependency theorists offering very different ideas than the very market-oriented theorists whose ideas became known as neoliberalism by 1980.

Yet the contention between the World Bank and borrower governments, individually or as a group, never became a simple World Bank versus borrowers confrontation because there were internal divisions within the structuralist, dependency, and market-oriented groups. World Bank management and staff never adopted thorough neoliberalism, and individual borrower governments followed a variety of paths. Though using some policies similar to those followed by advocates of ISI, the government of India stayed out of the debates; some Latin American governments never adopted ISI, and East Asian governments went in a different direction.

Greater awareness of the different economic growth rates experienced by developing countries in the 1980s, greater emphasis on assessing development by metrics of poverty reduction instead of or in addition to aggregate GDP growth, and Soviet collapse, led to reduced contention in the 1990s as borrower governments and outside observers acknowledged that central planning and import substitution industrialization were not as effective as had been thought. This left four distinct macro visions of how to organize a national economy in

contention: developmental state, mixed economy, regulated market, and very lightly regulated market models. At the same time, greater attention to policy choices regarding specific problems stemming from a decade of advocacy and debate about making "development" benefit individuals and households as well as countries encouraged detailed looks and resulted in some convergence on how to address specific problems.

Since 2008, the main lines of contention has been a four-sided argument among economic liberal, "altermondialist,"[1] developmental state and economic nationalist models. Economic liberals remain committed to open international trade and financial flows together with some form of regulatory state at the national level. Altermondialists want interconnections to be shaped by concerted international level regulation of private economic activity, particularly of the financial sector, to reduce income and wealth inequality within and between states. Developmental state advocates are currently arguing over whether development policy should continue to follow export-led approaches or shift to domestic demand led approaches. Economic nationalists prefer reducing interconnection through trade protectionism and other measures to insulate national economies from each other. Yet consensus among nearly all governments that development requires good infrastructure, continuing investment in all levels of education, administrative capacity, and consistent rules for economic activity encourages shifting contention over loan conditions to the meso-level and focusing on the observed or anticipated effect of particular policy choices.

For analysts of intergovernmental organizations, this inquiry provides a more nuanced look at how member governments retain agency in their day-to-day interactions even when an IGO is providing them with resources and is therefore in a position to significantly influence

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[1] The French language term for what are called "antiglobalization" activists and movements in English. The French term more accurately captures their position of accepting global interconnection but wanting it to be organized differently than it is at present.

their choices and conduct. Throughout its existence, the World Bank's borrower member governments have been strategic actors making two sets of calculations when presented with loan conditions they dislike. The first is whether they can secure modifications before signing the loan agreement. As preceding paragraphs suggest, they often succeed. The second set of calculations comes into play when securing initial modifications fails. One alternative open at this point is to avoid taking loans. Many borrow governments made this choice even in the straitened circumstances of the early 1980s, and it became more feasible in stages, the 1990s as private funds began flowing again to developing countries and in the late 2000s when new streams of both private and government-sponsored finance became available.

When avoidance is not feasible, there are other possibilities open to borrower governments. If they need the money badly enough, they have strong incentives to accept more conditions than they intend to fulfill simply to get the loan and hope that non-fulfillment is not punished later. Though aware of these borrower incentives, World Bank management has only weak defenses against such behavior. Stopping subsequent loan disbursements for an already-begun project or program causes serious disruption and raises the prospect of undoing desired development effects. The need to assure the private investors who buy the World Bank bonds providing its working capital by maintaining a diversified loan portfolio also exerts pressure to ensure a spread of borrowers at any particular time. Failing to maintain money flows by slowing down the overall rate of lending threatens the bank's ability to earn enough to pay its own bondholders and more generally remain in operation. If borrower governments were only dimly aware of these pressures to continue lending in the 1960s, they were certainly aware of them in the 1980s and continue to be aware of them.

The pressures on the World Bank to be attentive to borrower views at any moment are defined by its perceptions of what it needs to do to maintain its own existence. The pressures on the World Bank over time are created by the results of contentions over maintaining or altering the relevance and efficacy criteria providing important portions of the shared understandings that keep the authority relation in place. While the pressures to maintain organizational existence explain why the World Bank would not press borrowers too far, it is the content of the relevance and efficacy criteria that reveal the substantive direction taken in World Bank efforts to maintain its own existence.

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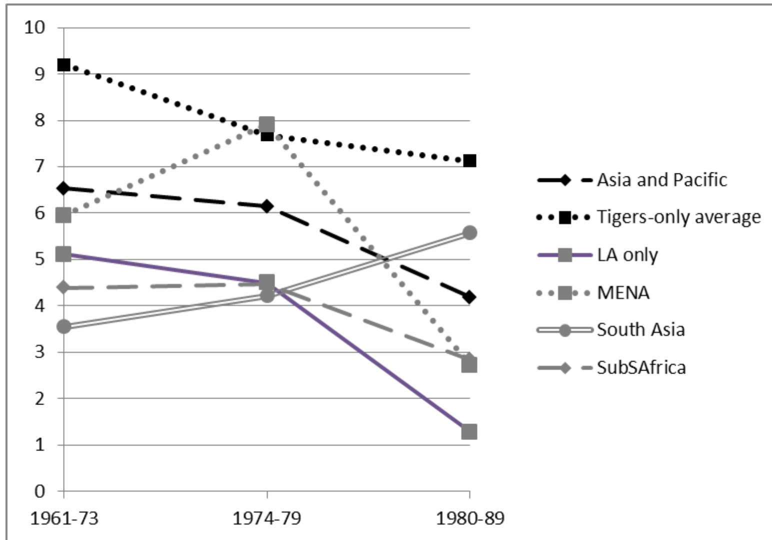
Graphs and Tables

Graph 1. Average GDP growth by region, 1961-1989



Source: World Bank. World Development Indicators. GDP growth.

Graph 2. Annual Bank Loan Commitments 1989-1997

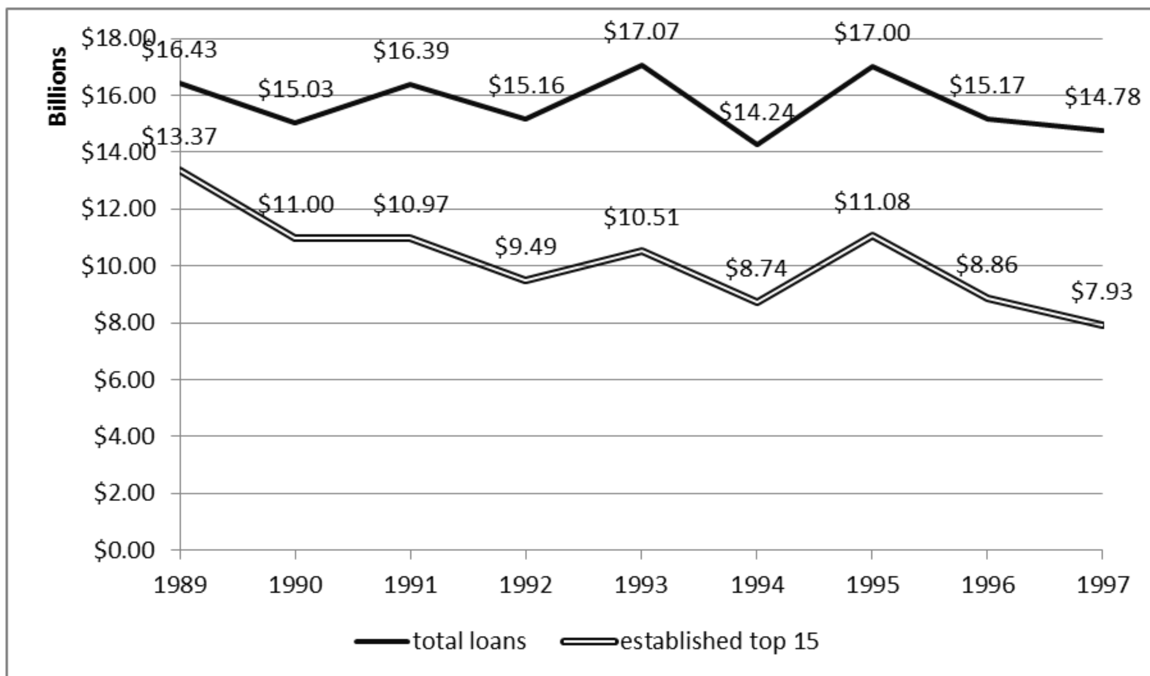


Table 1: average number of policy conditions per loan:

year	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
WB	35	38	33	26	35	28	33	27	19	19	11	11	10
IDA	31	32	21	18	32	20	22	16	17	12	12	13	12

Source: World Bank 2007: 5

Table 2 World Bank and Private Investment Flows to Developing Countries (millions $US)

year	Bank and IDA loans	private DFI	Bank+IDA loans as % of private DFI
2009	47,061	4,122,533	1.142
2010	58,707	5,943,831	0.988
2011	43,114	6,448,233	0.669
2012	31,599	7,399,238	0.427
2013	28,086	7,859,623	0.357
2014	36,749	8,180,163	0.449
2015	37,633	8,389,066	0.449
2016	41,643	8,678,032	0.480
2017	37,163	9,717,367	0.382
2018	39,976	10,032,508	0.398

Source: World Bank Loan Data available at and IMF Coordinated Direct Investment Survey, accessed 21 August 2021 at https://data.imf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5&sId=142436135820.