



OCGG Economy Section

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The World Economy

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Development

The World Bank Presidency: Europe should oppose Wolfowitz

Recommendation to the
Governments of the Member
States of the European Union

edited by Alex Cobham

INTRODUCTION

On Wednesday, March 16, President of the United States George W. Bush nominated his Deputy Secretary of Defence Paul Wolfowitz to succeed James Wolfensohn as President of the World Bank.

The somewhat hysterical reaction to the nomination of Wolfowitz has not generally allowed for a calm

assessment, by either NGOs, academics, development practitioners or indeed other governments in countries poor and rich. The latter in particular appear to have found themselves making policy on the hoof in response to an event which took them by surprise.

The governments of the leading countries of the European Union have voiced disgruntlement but

MAIN POINTS

EU member states should oppose the nomination of Paul Wolfowitz for President of the World Bank. They should do this in a concerted effort with the world's poorer countries. In the long term, the nomination must provide the catalyst for genuine reform of the governance of multilateral institutions.

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have settled on reluctant acceptance. British Foreign Secretary Jack Straw has echoed the view of German Chancellor Gerhard Schröder that critics may be pleasantly surprised, while the finance ministers of each country were less enthusiastic – Gordon Brown declined to comment, focusing on his budget statement, while Hans Eichel called for more discussions.

This Recommendation provides a careful assessment of the suitability of the nomination and finds it lacking. While there is undoubtedly much to recommend the candidacy, and a number of (non-conspiratorial) reasons why the White House should have proposed it, the demands of the role and its importance are too great. Key planks of the World Bank's improved performance in recent years would be at threat, and the growing international commitment to world development risks being stifled in divisions both internal and external.

If the nomination is accepted it would have serious ramifications both for the promotion of development and for the prospects of global governance through multilateral institutions. The governments of the member states of the European Union should therefore use their power to oppose the appointment of Wol-

fowitz and encourage the United States to nominate a more suitable candidate.

REQUIREMENTS OF THE POST

The post of President of the World Bank has developed over the years into one of increasing intellectual leadership, backed by personal commitment. The most successful and highly thought-of Presidents have been the fifth (Robert McNamara, 1968-81) and ninth (James Wolfensohn, 1995-). In between these two, Presidents Clausen, Conable and Preston each served relatively undistinguished single (five-year) terms.

ROBERT MCNAMARA'S CONTRIBUTION

While the Bank under McNamara stands accused of abetting many development failures and of often paying heed to political rather than development imperatives, there is widespread agreement that the changes that took place during this period were broadly positive. Not only was the scale of the Bank's activity dramatically increased, but McNamara coined the term 'absolute poverty' and began the long hard process of making it central to operations. Wolfensohn paid

the following glowing tribute to his predecessor:

“In 1968, when Bob came to the Bank, it was lending about \$1 billion per year. When he left in 1981, Bank lending stood at about \$12 billion a year. More importantly, he also changed the focus of the Bank’s work beyond infrastructure and projects to basic human needs, poverty reduction, and creating an economic environment that can deliver for poor people. In the process, he not only changed the Bank, he changed the way the world looks at development.”

J A M E S W O L F E N S O H N ’ S L E G A C Y

Wolfensohn himself is often praised as having driven through the Bank’s true embrace of the goal of poverty reduction – as opposed to economic growth per se, and has certainly sought to present a more ‘development-friendly’ face to the Bank. The attacks on the Bank during the 1980s, not least for environment failings in large dam projects, showed NGOs could leverage change through direct appeal but also through lobbying in the US Congress. Wolfensohn responded not only by taking on board a great deal of that criticism, but by taking much

greater care in the presentation of the Bank’s policies.

While the private sector has been central to much of the reform agenda, the Bank under Wolfensohn has also brought great emphasis to the subject of good governance. The importance of well-functioning, credible and transparent public institutions has been an increasingly dominant theme, whether in the Bank’s own responses to civil society or in the formulation of policy in poor countries. While there remain a great many areas of legitimate criticism of the Bank’s activities, few would argue that the Wolfensohn period has not seen some positive changes.

Wolfensohn’s other major contribution has been the attempt to rebrand the institution as a ‘knowledge bank’, the repository of development research and thought. While this too has drawn NGO criticism, it reflects the changing demands of the role of President. While a figurehead remains valuable, and managerial competence is clearly required for an employer of 10,000 staff, in terms of technical requirements it is economic literacy that has become increasingly important for a potential President.



LIBERALISM AND THE US STANCE

The common feature that unites the presidencies of McNamara and Wolfensohn – but does not perhaps apply to those who came between – is a well-established liberalism. Although McNamara came from a position as Defence Secretary overseeing the Vietnam War, his misgivings are well known and his desire to hold the Presidency has been characterised as seeking an opportunity for a very public *mea culpa*. Wolfensohn is an Australian lawyer by background, with extensive experience in investment finance (an important part of the Bank's role) at both Salomon Brothers and Schroeders, but was known for relatively liberal positions.

Finally, since the World Bank depends on the money provided by the world's rich countries, the incumbent should be someone who can contribute usefully to this process. As the UK's Commission for Africa report noted, and before it the UN's Millennium Project, much more aid money is required for progress in the world's poor countries. The US remains far from the 0.7% of GDP target, and the current administration has come out in favour of forms of funding the Bank that would undermine rather than increase its ability to leverage funds for develop-

ment. Improving relations with the administration is then an important task for the incoming President. This does not obviate however the need to tackle the continuing public perception that the World Bank's contribution (and that of the IMF) to development is undermined by politics, not least US pressures. There is a balancing act to be performed if funding is to be increased from the latter without risking the willingness of other partners to contribute.

GENERAL ASSESSMENT OF CANDIDATE

Paul Wolfowitz has served the US government in many positions, from Defence and State Department roles from 1977 onwards, to Ambassador to Indonesia under Reagan, to Undersecretary of Defence for Policy under George Bush, Snr. During the Clinton years, he was Dean and Professor of International Relations at SAIS in the Johns Hopkins University – he holds a doctorate in political science from Chicago.

INTELLECTUAL MERIT, ECONOMIC FAILINGS

There is little question that Wolfowitz has the intellectual capacity required for the

job. The other criteria identified above include value as a figurehead, economic literacy, managerial ability, credible commitment to development and good relations with the US administration. Of these, the second and third are most easily judged. President Bush, in making the nomination, complimented Wolfowitz on his managerial experience – ‘the World Bank is a large organisation [...] the Pentagon is a large organisation.’

Some commentators have claimed that economic literacy is of less importance than managerial capability, but it is certainly the case that most of the alternative names that circulated have a background in economics or public finance. Leszek Balcerowicz, Trevor Manuel and Ernesto Zedillo have this experience in large developing or transition countries. Gordon Brown is a long-serving finance minister and has pushed a number of development-related issues to the fore in G7 and EU circles, while John Taylor is a former Stanford professor of economics who has been responsible for US development work since 2001. Only the musician Bono (who surely was never a serious possibility) lacks any economic grounding.

In this context, Wolfowitz looks weak – with business experience only extending to consultancy work for defence contrac-

tor Northrop Grumman, there is little to suggest sufficient economic understanding. As his cv includes paid speaker roles at the Heritage Foundation and he is perhaps the most well-known neoconservative administration figure, Wolfowitz is suspected of holding relatively far-right free-market views. But in truth, so little has he operated in this sphere that little can be gleaned of his economic instincts. The common perception is that as the Bank aims to be part of an increasingly evidence-driven movement, a more, rather than less highly qualified candidate is now required.

POLITICAL LIABILITY FOR DEVELOPMENT?

The possible appointment of Wolfowitz also raises concerns in light of his political position. Well-known for drafting the ‘Defense Planning Guidance’ in 1992 which recommended unilateral US pre-emption as part of a strategy to maintain long-term primacy as the sole superpower, and for playing an important role in bringing this strategy to bear through the Project for a New American Century in the 1990s and more directly after 9/11, Wolfowitz does not necessarily have the ability to maintain sound and neutral relations with the range of countries with whom the Bank must interact. In partic-

ular, the perennial controversy over the extent of the Bank's contribution to the advancement of democracy is unlikely to be eased by his presence at the helm.

As a figurehead, Wolfowitz is likely to be highly divisive both internally and externally. There is deep concern within the Bank at the prospect of the appointment of one with such strong political views, and such little previous development interest evident in his cv. Many have been surprised at the stories of an Arab partner with a fairly senior role at World Bank, but this gossip does not constitute commitment. There are internal concerns over both the likely direction of a Wolfowitz Bank, and the likely level of public suspicion and scepticism about its motives.

The whole of the international development community recently endorsed the Millennium Project Report and is about to prepare the high-level event in autumn this year on the Millennium Development Goals (MDGs). The Bush administration has sent a further negative signal about its commitment to the process with the appointment of John Bolton to the UN. That Wolfowitz too has so clearly and repeatedly positioned himself as a unilateralist undermines the extent to which he could credibly work towards

the MDGs. MDG 8, for example, is about lasting partnerships between developing and developed countries and about shared responsibilities. It is now widely held that this MDG is essential to achieving the others.

Wolfowitz's nomination undermines the credibility of the World Bank. Significant Wolfowitz initiatives would find it hard to garner support in the developing world, given the existing antagonism. The importance for success of 'national ownership' of policy has increasingly been recognized, albeit belatedly, so the implications for performance of Bank projects are not good.

CATALYST FOR CONFLICT

The strength of external feeling has been evident in the reaction thus far to the nomination. Described as 'truly terrifying' (Peter Hardstaff of World Development Movement), 'deeply divisive' (Patrick Watt of ActionAid) and 'very surprising and in many ways... inappropriate' (Jeffrey Sachs), there is no doubt of the anger and dislike widely felt in development circles for a man viewed as both the architect of the pre-emptive strike in support of US hegemony and a proponent of imposed democracy.

Given his limited public engagement with development ideas, and the fixed and relatively extreme views that have characterised this, it does not seem likely that a Wolfowitz Bank could be seen as a politically neutral driver of world development. Tensions over the approach to development are healthy and will inevitably continue under any president, but destructive conflict – internal or external – is quite different.

The alternative globalisation movement (AGM) is up in arms, but organizing. Predictions are flying of a resounding coming together of the (already overlapping) anti-war mobilisation and the AGM, with Wolfowitz's nomination portrayed as a clear confirmation from the Bush administration of the Bank's role in funding a neoconservative political agenda. Despite popular media characterisations, the AGM is largely made up of reformist – not rejectionist – elements. The possible union against what is increasingly now being referred to as 'the War Bank' can only give the upper hand to rejectionist groups, with damaging consequences for dialogue and for development.

REASONS FOR CANDIDACY

Perhaps what may be of most concern for the development community is the signal that the Bush administration would send by making the nomination: that, given that they would surely have made a similar assessment before any decision, they are prepared to ignore these concerns and push through their candidate regardless of concerns about the future contribution of the Bank to development. In particular, since Wolfowitz's name had been floated and then withdrawn hurriedly just weeks before the announcement, the surprise announcement seemed to evidence either incompetence, uncertainty or – the conspiracy theorists' favourite – a desire to confuse other Bank stakeholders and increase the chance of the type of acceptance which seems to characterise the EU position thus far.

Coming soon after the US delegation to the UN had used the occasion of the 10th anniversary of the Beijing conference on the status of women to argue – with the sole support of the Vatican observer – for an end to UN backing for the right to abortion, the possible nomination of Wolfowitz will heighten fears of an increasingly damaging divergence between the goals of the Bush adminis-

tration and those of the broader development community. For Wolfowitz to take charge of the World Bank would suggest that a key development institution could shift to one pole of this debate. By gaining control of key institutions of global governance, the current US administration can institutionalize their power at its height.

REAL POLITIK NOT CONSPIRACY

The OCGG understands that the reasons for nominating Wolfowitz are rather more mundane however than any grand plan. In short, a place had to be found for Wolfowitz as the retirement of Rumsfeld (expected in around a year) looms. It is thought that it would be highly difficult to have Wolfowitz confirmed by the Senate as the next Secretary of Defence, due to his record on Iraq – not the attack itself, nor yet its selling beforehand, but rather its management, including specific disagreements with army officers on deployment levels. Moreover some insiders feel that Wolfowitz's rather academic and idealistic nature make him unsuitable in any case – though this hardly bodes well for his suitability at the Bank.

An incoming Secretary of Defence will typically like to appoint a Deputy who

is very much in line with her/him, and hence Wolfowitz is unlikely to be able to stay on. Given that he remains very much a friend of the administration, the preference is to move him 'sideways', and the Bank job has both the timing and apparently some personal interest. This view then suggests that instead of any machination, the nomination reflects standard operation. A possible positive aspect then would be that US support for a Wolfowitz Bank might be expected to rise.

COSTS AND BENEFITS OF BUSH ADMINISTRATION SUPPORT

The final criteria for a Bank President relate to the ability of the candidate to engage positively with the US administration to obtain greater financial commitment to development. It seems likely that – while Wolfowitz should have this – it would come at the price however of the Bank following a similar line with its assistance to the administration – that of greater, rather than lesser, conditionality of assistance, as in the Bush initiative, the Millennium Challenge Account. Making developing countries adopt certain (partly political) priorities before being helped has so far not yielded great success, and other donors are increasingly moving in the opposite direction.

This year's MCA allocations have been criticised for being driven not by the announced criteria so much as the opaque discretion of the Board, undermining confidence in the commitment to using the funds to enhance democracy with development. The MCA has in any case yet to receive full funding in a single year, and is expected to see further cuts as the US budget deficit bites. The implication for prioritised Bank funding – but also for a Wolfowitz Bank's approach – is not then good. Finally, the five-year term would stretch well beyond the last years of the Bush administration, so the level of cooperation with a Wolfowitz Bank might hinge on the outcome of the subsequent election.

While the reasons for nominating Wolfowitz are probably not those feared by some – to deliberately undermine or distort the institution – there is nonetheless little reason to take encouragement from this analysis.

PROSPECTS FOR A WOLFOWITZ BANK

It is possible to use what little is known of Wolfowitz's positions on development to consider the type of changes that could be expected. A break from the Wolfensohn legacy seems likely to occur. Where

the latter promoted good governance, and the role of the private sector in development, a Wolfowitz Bank would be expected to prioritise other goals – specifically:

- The promotion of democracy as an instrument of geopolitical goals rather than an objective of human development. One of Wolfowitz's only direct comments since his nomination stressed the 'enlightened self-interest' argument for promoting development. This suggests that – at least for the time being – he sees the World Bank's mission much as he has portrayed the bringing of democracy to other countries: as a useful tool of US foreign policy, which may happily bring additional benefits to the subject. It must be hoped that if he takes office, the worldview underlying this approach would be rapidly shed.

- A more streamlined Bank. It is feared, not least by staff, that given both the lack of economic literacy and the single-minded use of evidence in support of the case for war on Iraq, Wolfowitz would not share the level of interest in 'non-core' items such as the 'knowledge bank' project, and might perhaps not tolerate the same level of diverse research. While this might facilitate in the medium term a more efficient institution, inso-

far as 'core' development tasks could be better-funded, the longer-term effects would include a narrowing of views in a field where few answers are definite and openness to progress is essential. The attraction and retention of high-quality staff could well become an issue.

- More restricted assistance. A combination of greater conditionality of Bank assistance, and greater scepticism among both other donors and recipients is thought likely to lead to a move away from the current trend for (i) greater co-ordination to minimise duplication and recipient compliance costs, and (ii) reduced conditionality and greater stability of commitments in order to maximise benefits.

- A more defensive Bank. Almost inevitably, the appointment of Wolfowitz would intensify NGO scrutiny and criticism of individual Bank actions to the level where staff are personally affected and relationships with outside actors are threatened. The level of intensity suggested by some recent comments is unlikely to provide the optimal level of scrutiny, but rather risks subordinating development efforts to a narrower conflict.

STRATEGY FOR EU MEMBER STATES

The question remaining is how the governments of the member states of the European Union should respond. The current piecemeal, grudging acceptance is exemplified by Sweden's Finance Minister Par Nuder: 'if you can't get the one you love, you have to love the one you can get.' This seems to sum up the defeatist attitude taken thus far, which many commentators have attributed to individual EU states' unwillingness to jeopardise their own goals – from WTO leadership to permanent Security Council seats.

COSTS OF SEEKING A BETTER CANDIDATE

There are three main costs to opposing the nomination: the undermining of EU-US relations only gradually recovering from the Iraq war; the above individual issues where US support is sought; and the danger that if Wolfowitz is rejected, a worse candidate will be nominated as punishment.

While clearly better relations between the EU and US are desirable, this is clearly not true at the expense of losing the ability to disagree. The question then is whether the potential appointment of

Wolfowitz is sufficiently damaging as to warrant open disagreement. The analysis presented above suggests that it is indeed, if EU member states place the value they claim on wider world development. This is especially true for Gordon Brown and Tony Blair as they seek to maximise development progress while the UK holds the EU and G7 chairs. For France and Germany, and most other EU members, it would seem odd if they felt that they had 'misbehaved' over the war to the extent that the responsibility to avoid conflict was theirs – regardless of the US approach.

The cost to individual countries of losing US support for particular projects is not an argument that should detain EU member states long. The creation of a single political entity in the EU was surely designed to prevent just such splitting by an external power, and the unity that an EU-led response would bring ought to guarantee minimal punishment.

The final cost – of the US nominating a 'worse' candidate – is itself not worthy of significant consideration. First, it presupposes a level of childish malevolence from the Bush administration that is surely ridiculous. Second, it is premised on the view that politically the EU could not oppose such a candidate. In the un-

likely event that such a nomination were to be made, after the EU had organised in response to Wolfowitz, that seems in fact to be precisely the most likely response.

BENEFITS OF SEEKING A BETTER CANDIDATE

The benefits of opposition are manifold, though the avoidance of a highly damaging period for the World Bank has a potentially massive value for human development around the globe. First, the mere exercise of reaching out to developing countries would generate a positive new dynamic with potential benefits not only in differentiating the EU position from the US but more constructively in building potential support for other issues. This would not be lost on the alternative globalisation movement either, and would lend useful support to reformist voices therein.

Second, since the way in which the nomination was managed suggests at best a careless disregard for other views, opposition could send an important signal in regard to future issues. At the least, the failure to send such a signal only offers encouragement to this approach.

The third and major benefit would come from the public airing of disagreement

over the issue. In particular, this could finally force the question of the governance of the multilateral institutions out of NGO campaigns and academic papers and onto the table. The distorted practice of nomination of World Bank and IMF heads is but the tip of the iceberg of governance issues including transparency and accountability that must surely be addressed with action. Real multilateral governance, the goal of EU foreign policy, can only be achieved when the Bretton Woods institutions adapt multilateralism as a principle.

While the technicalities of the vote and veto process are themselves in serious need of overhaul, it is clear that if the EU members can gain sufficient support then the US (or Wolfowitz himself) is likely to withdraw from the nomination.

If insufficient support is obtained, the three secondary benefits should still accrue. In this scenario, the likely impact of a Wolfowitz Bank outlined above should be taken into account in establishing positions – on the basis of the assembled coalition – to minimise the damage done to what remains, notwithstanding the many valid criticisms, the strongest single vehicle for development assistance in the world.

Finally, the opposition of such a potentially damaging nomination should not be seen as a negative step – rather, it would represent a bold, positive move by member state governments to push pro-actively for the global development policies that are most likely to reduce the burden of human poverty and suffering.

C O N C L U S I O N

The OCGG recommends that the governments of member states of the EU oppose outright the nomination to World Bank President of Paul Wolfowitz, in as wide a coalition with developing countries as possible.

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