

CRUCIAL CHOICE, FAILED PROCESS

Joseph Stiglitz

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James Wolfensohn, the president of the World Bank, has announced his intention to leave and the search is on for a new head of the world's most important multilateral organization promoting development. The choice is especially important now, when poverty in the Third World is finally being recognized as our greatest problem and challenge.

The World Bank's designation as a bank understates its importance and multifaceted roles. It does lend money to countries to undertake a variety of projects and to help them through crises (such as the \$10 billion it provided to Korea in 1997-98). It has been, and is, playing a vital role in post-conflict reconstruction around the world.

But the bank also provides grants and low-interest loans to the poorest countries, particularly for education and health, and advises these countries on development strategies.

It has often joined with the International Monetary Fund in strong-arming countries into accepting this advice: unless they do, they will not only be cut off by the IMF and the World Bank, but also by other donors, and capital markets will be discouraged from providing funds.

Sometimes - critics will say often - the advice provided by the IMF and World Bank is misguided. This was certainly true in the 1980s and early 1990s when right-wing ideology dominated, producing a one-size-fits-all prescription entailing privatization, liberalization, and macro-economic stability (meaning price stability), with little attention to employment, equity, or the environment.

The term bank is a misnomer in a second sense: while the World Bank refers to its members as shareholders, it is hardly a private bank. On the contrary, the World Bank is a global public institution. But, while the G7 countries, which dominate voting at the bank, all declare their commitment to democracy and good governance, and espouse promoting them as one of their central objectives, there is a yawning gap between what they preach and practice.

Indeed, the entire process of choosing these international institutions' leaders is a historical anachronism that undermines their effectiveness and makes a mockery of the G7 countries' commitment to democracy. This process, established 60 years ago at the outset, is framed by an agreement that an American would lead the World Bank and a European the IMF. The American president would choose the bank's head, and Europe would collectively decide on the IMF leader, with the understanding the other side would exercise its veto only if a candidate were totally unacceptable.

Within the United States, all major presidential appointments must be ratified by the Senate. Even if rejections are rare, the vetting process is important, for the president knows he can go only so far. But the World Bank presidency is a rare plum, an appointment not subject even to congressional hearings.

How can advice on democratic reforms be taken seriously when the multilateral institutions offering it do not subscribe to the same standards of openness, transparency and participation they advocate? Why should the search for Wolfensohn's successor be limited to an American - especially an American loyal to a particular

political party? Why is the search going on behind closed doors? Shouldn't these international public institutions be looking for the best-qualified person regardless of race, religion, gender, or nationality?

The two names floated so far - presumably leaked as trial balloons - are particularly disturbing. To put it bluntly, given the World Bank's importance, consideration of either putative US candidate - Assistant Defense Secretary Paul Wolfowitz or former Hewlett-Packard chief executive Carleton Fiorina - has been highly controversial.

Even if convention allows the US president to appoint the World Bank's head, the organization's success depends on the confidence of others. Neither Wolfowitz nor Fiorina have any training or experience in economic development or financial markets.

The lives and well-being of billions in the Third World depend on a global war on poverty. Choosing the right general in that war will not assure victory, but choosing the wrong one surely enhances the chances of failure.

Editor's note: This article was published before the Bush administration nominated Paul Wolfowitz. When the appointment was announced, Dr. Stiglitz reiterated the arguments made here. "My worry," he said in an interview with British television, "is that the World Bank will now become an explicit instrument of US foreign policy."

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