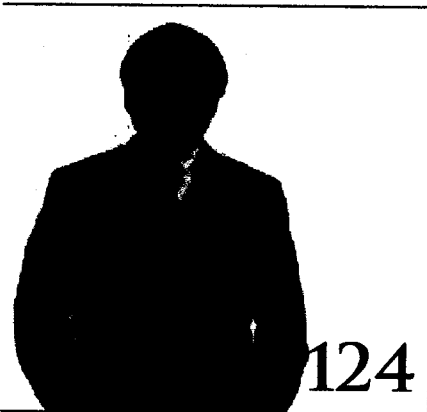


CONTENTS

THE AMERICAN INTEREST • VOLUME IV, NUMBER 3, WINTER (JANUARY/FEBRUARY) 2009



NATION-BUILDING IN AMERICA

- 6 **Intelligent Design**
by William A. Galston
New policies can't work without innovation in governmental design.
- 15 **Forging a New Shield**
by James H. Locher III
Charting a Goldwater-Nichols-scale reform for the U.S. interagency process.
- 27 **Toolbox: Advice for the Advisor**
by Ivo Daalder & Mac Destler
Memo to the National Security Advisor: Learn from your predecessors.
- 32 **Bombs Away**
by Zachary S. Davis
New tools to fight WMD proliferation need to be institutionalized, not abandoned.
- 39 **Toolbox: Investing in Peace**
by Carlos Pascual
Time to take U.S. stabilization and reconstruction capabilities seriously.

MONEY-GO-ROUND

- 46 **A Conversation with Martin Wolf**
Francis Fukuyama talks with the *Financial Times*' chief economics commentator about structural fixes for a post-meltdown world.

TOUGH CHOICES

- 52 **Asia Rising**
by Aaron L. Friedberg
The U.S. position in Asia is good. Keeping it that way won't be easy.
- 63 **The Turkish Portfolio**
by Morton Abramowitz
U.S. policy toward Turkey must navigate a compound dislocation.
- 74 **Ban the Bank?**
Debating the future of the World Bank: Close it down, says *Allan H. Meltzer*. Mend it, don't end it, says *Katherine Marshall*.



Editorial Board
Executive Editor: [Name]
Editor: [Name]
Managing Editor: [Name]
[The following text is extremely faint and difficult to read, but appears to be a list of names and titles related to the publication's staff and board.]

84 Toolbox: The Refugee Imperative in Iraq

by Rhodri C. Williams

Focus on refugee resettlement now, or pay dearly later.

WHAT NOVEMBER 4TH MEANS

88 An Election in History

by Morton Keller

We now inhabit a populist democracy, as Obama the candidate understood well.

94 Irrational (Democratic) Exuberance

by Theodore Dalrymple

Mere enthusiasm does not a successful government make.

REVIEWS

98 A Conversation with Robert J. Samuelson

A new way to see the past forty years of American history.

107 Factory Fresh?

by Jennifer Hewett

Bee Wilson's history of food frauds teaches a lesson: *Caveat comesor.*

111 On Citizenship

by Gerhard Casper & Stephen D. Krasner

Is the ideal of citizenship in decline? Depends on how you define it.

116 Retroview: The Man in the Black Cape

by Andrew J. Bacevich

Randolph Bourne's warnings of how war feeds the state reverberate still.

NOTES & LETTERS

119 Winter Note: What "Chimerica" Hath Wrought

by Niall Ferguson

Those who see America's nadir in the current economic crisis are shortsighted.

124 A New Era

by Francis Fukuyama

The big ideas of the Reagan era have overstayed their welcome, but what should replace them?

127 Letters to the Editor

128 Yankee Doodle

Ban the Bank?

A Debate on the Future of the World Bank

Close It Down

Allan H. Meltzer

Successful official financial institutions, whether national or international, supply what social scientists call public goods: outcomes that benefit many specifically but everyone generally, despite that fact that the production of such goods often requires some to pay disproportionately to sustain them. Thus, a decision to supply public goods can be in the U.S. interest, but has an altruistic twist: Providers pay but still benefit, even though recipients benefit more.

As World War II came to an end, the United States and Great Britain agreed on the need to create public goods for international finance, lest a mess on the scale of the pre-war situation make a stable, peaceful recovery more difficult. As part of their commitment to an international system based on more open trade, an end to trading blocs and a program for economic growth based on markets and competition, they set up rules for international economic policy designed to avoid currency competition and provide more certainty about exchange rates. Thus, in 1944, three new institutions designed to supply public goods arose at Bretton Woods, New

Allan H. Meltzer is University Professor of Political Economy at Carnegie Mellon University and visiting scholar at the American Enterprise Institute.

Hampshire. Most states accepted the rules for exchange rates and signed the charter of the International Monetary Fund. Most endorsed what became the General Agreement on Tariffs and Trade, the GATT. As something of an afterthought, they also agreed to establish the International Bank for Reconstruction and Development, later called the World Bank, to help finance recovery from the war. The Soviet Union participated in the meeting, but elected not to join the Bretton Woods institutions.

Looking back today, it is clear that this provision of public goods has been a resounding success. More people in more places have gained under the new rules than in any previous era. Living standards have risen, poverty has lessened, and life expectancy, health and education have all increased thanks to the supply of public goods afforded, in part, by the Bretton Woods institutions.

Much of the success resulted from the GATT's large reduction in tariff barriers and other restrictions on trade, and much of the GATT's success was a product of very supportive U.S. policies. Both the United States and Europe, and then much of the rest of the world, have benefited greatly overall, but some American industries and their workers, and then some European industries and their workers, have suffered from the structural adjustments enabled by a more open trading system. The failure of leaderships to handle the political implications of these structural changes means that both European and American publics have become less



© Gideon Mendell/ActionAid/Corbis

Remnants of an abandoned World Bank drainage and sanitation project in Lagos, Nigeria.

willing to supply additional public goods, as we have seen from pressure in the United States to modify the North American Free Trade Agreement and the failure of the Doha Round of tariff reductions. Thus, one of the three principal postwar international arrangements, the GATT (later the WTO), seems unlikely to remain as important in the early 21st century as it was in the mid-20th. That is unfortunate, but with wise and effective leadership in the United States and abroad, it is not an irreversible trend.

The IMF, too, has had a reasonably good run in the shadow of U.S. policies. But it had to reinvent itself to do so. An IMF created to be the lubricant and buffer in a system of fixed exchange rates changed its mandate to one in which it served as a quasi-lender-of-last-resort and a pedagogue of macroeconomic orthodoxy to a succession of economic truants. Its resources were limited but adequate for the problems arising before capital became highly mobile—although how good a teacher the IMF really was is open to debate. Now, however, the IMF's funds are very modest (indeed, it is running a \$200 million deficit), and capital is plentiful and very mobile. Thus the second coming of the IMF, so to speak, is now nearly as obsolete as the first.

If the IMF were abolished, the world would not suffer greatly. But it would be wiser to reform the IMF into a smaller organization with two specific responsibilities. First, as current international financial instability

suggests, there is still a need *in extremis* for a standby quasi-lender-of-last-resort. The IMF would no longer be responsible for bailing countries out of their problems, but only for preventing a crisis in one country from spreading to others. Its loan to Uruguay following Argentina's default in 2001 is an example of this policy.

Second, though private lending is now much larger than lending by international agencies, improvements in the quantity and quality of information can still contribute to lower risk and the more efficient functioning of international financial markets. This is an important role the IMF could play effectively. These two roles—preventing the spread of crises and improving the quantity and quality of information—require a smaller IMF. This is precisely what the Obama Administration should pursue.

While the Administration should save the WTO and reform the IMF, there is really no point of doing either with regard to the World Bank. It has been marginal at best and a bust all along at worst—and probably on balance counterproductive to its own mandate of stimulating economic development.

The Bank's first mission was the reconstruction of war-torn Western Europe and Japan. As things turned out, its role was minor. The Marshall Plan was a larger factor in Europe, and spending for the Korean War helped both Japan and Europe to recover economically more than anything the Bank did. Nor was the Bank

a major part of the motivational ensemble of postwar developments; rather, it was the U.S. interest in getting its allies to oppose the spread of communism that helped revive and strengthen Western Europe.

The Bank next turned its attention to economic development in newly independent less-developed countries. At first, it mainly financed infrastructure, building roads and dams in many countries. Farm-to-market roads increased economic opportunities, but in many countries these new opportunities never developed into self-sustained growth because governments controlled agricultural prices to subsidize city dwellers. Price controls probably destroyed any major benefits of the Bank's rural-sector lending, yet the Bank did not require an end to price controls as a condition of its loans.

The Bank's culture of compensation and promotion rewarded lending regardless of consequences.

After Robert McNamara became World Bank president in the late 1960s, the Bank changed its focus from infrastructure development to poverty reduction, and later to social and cultural concerns such as the role and treatment of women. Attractive as these objectives were, the Bank did not know how to achieve them. Of the several dozen countries designated as "least developed" several decades ago, only one ever graduated from the list despite all the foreign aid and World Bank programs designed to generate sustained growth. By the late 1990s, Bank President James Wolfensohn had finally recognized the obvious: Development policies only work when local politicians create social coalitions to support pro-growth policies. When they instead choose to sustain the hierarchical and corrupt non-democratic practices that keep them in power, no international provider of public goods can make much difference.

The World Bank was very slow to recognize this truth, and in the meantime the internal culture of the Bank evolved in such a way that compensation and promotion rewarded lending regardless of its consequences. The

bureaucratic incentive structures within the Bank today warp the system to favor making loans even when their genuine development potential is small or non-existent. Bank staff have consistently opposed all efforts to curtail lending to the most corrupt countries, with the support of some member governments.

The Bank seems incapable of reforming its procedures to reduce corruption, or even to take it sufficiently into account in its practices. One of the reasons may have to do with the Bank's own corrupt practices. Independent experts led by Paul Volcker have investigated the Bank's own role in abetting corruption through corruption. They have found significant resistance by the staff and some of the leadership to the work of the Bank's investigative group. This is not surprising, since the Bank's own internal

investigation found more than two thousand cases of alleged staff fraud, misconduct or corruption between 1999 and 2007.

Partly as a result of these revelations, last September the U.S. Senate approved a resolution introduced by Senator Evan Bayh (D-IN) calling on the World Bank to pay more attention to measuring results. The resolution called on the Comptroller General to measure the success of the projects financed by the Bank's International Development Agency (IDA). This resolution followed on the conclusion of the International Financial Institution Advisory Commission (IFIAC), established by Congress in 1998 (which I chaired). The Commission was appointed by Congress as part of the legislation to increase IMF resources by \$100 billion. The Bank's success record is poorest in the poorest countries—precisely the countries where it should be investing the most and having the greatest successes. This very fact explains why the IDA and the Bank continue to subsidize loans in middle-income countries: These countries are more likely to complete projects, so they raise the Bank's average record in a way that partially hides the poor results in impoverished countries.

The fact is, however, that the world's private financial markets now consider many middle-

income countries creditworthy, enabling them to borrow from private investors. Several studies have therefore concluded that the Bank and IDA should not subsidize loans to these countries. The Bank argues correctly in riposte that there are many poor people in middle-income countries. What it fails to say is that many middle-income countries can finance poverty programs and income redistribution in the capital markets or from domestic resources, if they choose to do so. As Senator Bayh noted, the vast majority of World Bank lending today is in countries that do not need the Bank any longer. The Bank's *raison d'être* ought to be about getting results in the poorer countries that are not creditworthy in international markets. Here we come back to the problem of corruption and the Bank's inability or unwillingness to do anything about it.

The Bank's defenders often argue that its lending still benefits "the poor" even if some part of the loan is misappropriated or stolen. Such a claim would be plausible, save for the evidence.

For starters, even the Bank's own unreliable statistics on its achievements show little evidence of success in helping the poor. Independent analyses show even less. A recent study by senior IMF economists concluded that foreign aid does not increase economic growth at all. Aid can encourage development in some countries, but in others it can deter it by helping ruling cliques sustain anti-growth policies. A 2007 report by a Canadian Senate committee concluded that more than \$12 billion in bilateral aid had not changed living standards in sub-Saharan Africa. The reason: bad government and corrupt leadership. The U.S. Government Accountability Office evaluated a \$14 billion child-survival program financed by USAID and found absolutely zero evidence of positive results. The British development economist Paul Collier has found that less than one percent of the funds granted to Chad for rural health clinics was actually used for their intended purpose.

These and other studies have also offered broader appraisals of why the Bank's programs fail. The Bank, they all say, has too many programs and too little accountability. It fails to

develop regional programs. It rewards lending, not poverty reduction, which would require it to measure results—something it seems not to know how to do. It does little to prevent corruption, and it drives out presidents like Paul Wolfowitz who want to focus on doing more.

Senator Bayh has urged the Bank to adopt some of the principal internal reforms proposed by the IFIAC. The first proposed reform called for reduced lending to middle-income countries. The second requested a performance audit by an external examiner to learn which programs are effective and which are not. The Bank refused both recommendations. Instead, it changed the name of its Operations Evaluation Department to the Independent Evaluation Group, but it has continued the practice of using Bank employees to staff the unit. There is nothing independent about it, and it is folly to expect an in-house evaluation group to criticize the performance, ultimately, of those who have hired them.

The Bank's major failing, however, is common to aid programs in general. The Bank has not accepted two principal lessons about development and poverty reduction. The first is that development is not something that can be decided in Washington. The developing country's leaders must be willing to make the changes that promote or encourage development. The second is that development is much more likely to occur when a country protects property rights, adopts and maintains the rule of law, encourages freedom, and opens the economy to trade and foreign investment. In other words, economic growth and poverty alleviation are not about economics as a technical exercise; they are about political economy—the critical intersection of power and wealth in a society. It is impossible to change a social system to generate economic growth without affecting the dynamics of that intersection.

Look at the experience of China and India before and after they undertook market-opening reforms. Before reforms, poverty was widespread; afterward, poverty indicators in both countries plummeted (more in China than in India because China's economy is the more market-driven of the two). World Bank lending played a minor role in both countries compared

to private capital inflows. Institutional change driven from the political echelons in these countries, above all, made the principal difference.

Until about twenty years ago it was possible to argue that the Bank provided a public good: loans to countries that could not secure them in any other way. But that is no longer the case. There is plenty of capital available for countries that adopt promising development programs. Even China, Singapore and other formerly poorer countries now supply capital to the developed countries, and this at a time when some observers still try to justify World Bank lending to China!

Indeed, the Chinese government has become a major supplier of capital to Africa on terms that the borrowers find more attractive than the World Bank's offerings. At first glance this is surprising, since the Bank's IDA facility has lent at a low (0.75 percent) rate for as much as forty years with an initial grace period. As the loans became due, moreover, the Bank's directors forgave many of them. But from the perspective of the borrowing countries, the principal cost of the Bank's loans has not been financial. It has been instead the hectoring and advising from the Bank's management and staff. Some governments would now rather pay China a higher interest rate just to escape condescending chatter from World Bank economists who do fancy sums and can draw up colorful PowerPoint charts, but who simply ignore political realities in the countries they say they are trying to help.

It is hard to escape the conclusion that the World Bank no longer provides public goods, if it ever did. It follows that those who bear the brunt of the costs are no longer getting their money's worth. Perhaps the Bank could again become a provider of public goods, if it were prepared to reform itself sufficiently to do so. But every attempt to nudge the Bank to adapt to new circumstances has failed. Not only does the Bank no longer have a special role, it has resisted acquiring one. Instead of showing others how to be dynamic and grow, poor and corrupt countries seem to have taught the Bank how to lock itself in stasis and resist all change. It should therefore be closed. Maybe then its remaining clients will finally be induced to undertake the reforms that would permit them to borrow from private capital markets. ♣

Mend, Don't End

Katherine Marshall

The World Bank is no stranger to controversy. As perhaps the leading world institution concerned with development, it is at the vortex of debates about what works and what does not work in international assistance, and where responsibility for bringing change lies. Burdened by a history of inward focus and technocratic communication habits, the Bank is difficult to penetrate and understand. So, in many circles, the World Bank is known primarily through the reflected image projected by its critics. These critics range from reformist observers to fundamental, jugular questioners of the institution's legitimacy, mandate and approach. Allan Meltzer's viewpoint on this issue—that the World Bank no longer has a role—falls into the latter category. The new Obama Administration will need to navigate the shoals of varying discordant views of World Bank supporters and detractors.

Debates about the World Bank play out in many places. Around the turn of the millennium, the staid World Bank became a lightning rod for anti-globalization coalitions with myriad causes, from environment to debt. The combination of highly publicized public protests and faltering confidence about much Bank work among key shareholders, including the United States, galvanized the institution to introspection and successive reforms. Partly as a result, today's debates tend to be less strident and more varied.

The myriad questions and critiques of the World Bank fall into five broad categories: (1) that the Bank represents empire, the "project" of extending the influence of the rich and powerful across the world; or that the Bank is an elephantine and arrogant institution flaunting its power; (2) that the Bank follows inappropriate economic policies, representing bad or outdated economics, or, a quite different critique, policies

Katherine Marshall is senior fellow and visiting professor at Georgetown University's Berkley Center for Religion, Peace and World Affairs, and had a long career at the World Bank.

attuned to the world's rich, not the poor communities the World Bank is supposed to serve; (3) that the effects of Bank policies and operations (especially infrastructure construction and macroeconomic reforms) hurt more than help poor communities; (4) that the Bank takes ethical considerations lightly into account, ignoring corruption, working with corrupt and undemocratic regimes, and failing to advance basic human rights; and (5) that the Bank, despite efforts to open up, is secretive, hard to understand, and, overall, an enigma.

It behooves American policy analysts to take note of much-propagated views of the international financial institutions (particularly the IMF and World Bank) as blunt instruments of U.S. "empire"—acting not as truly international players but serving the political and economic interests of the powerful, and increasing their wealth at the expense of poor countries. The "democracy deficit" some hold against the World Bank refers to its voting system, which links voting shares to financial contributions and wealth. This controversial hallmark of the World Bank and the IMF sets them apart from other United Nations institutions. Adjustments to member nations' voting power over time (and particularly over the past year) align capital shares with shifting economic strength, thus increasing the weight of middle-income countries. As to poorer countries (especially in Africa), efforts to enhance "voice" with procedural and attitude changes rarely impress critics who see an irredeemable system.

The "empire" critics question the sheer size and reach of the World Bank, an "undemocratic" institution seen to exercise excessive and unhealthy power over the fate of poor countries, which have little choice but to engage the Bank to survive crisis and secure financing to support their development. These critics argue against conditioning funding on macroeconomic reforms, though it is hard to imagine a financial institution making loans or grants without agreeing on how they will be used. Others propose bolstering regional banks to increase their development finance, starting new ones (Hugo Chávez's Bank of the South), or breaking the World Bank up into smaller and thus hopefully more nimble and responsive entities.

The "empire/elephantine" critique addresses what is sometimes termed "mission creep", positing a World Bank that has expanded willy-nilly, incapable of saying no. With its successive expansion of programs, the Bank appears to some critics to be stretched to a point of ineffectiveness that also undermines the capacity of other institutions (both national and United Nations agencies) designed to act in the same fields. The problem is real; witness the Bank's extraordinarily wide range of activities and failure to cut back on any activity on which it has embarked. But so are the urgent calls from shareholders for the Bank to take on new roles, like administering funds on behalf of the Global Fund for AIDS, Tuberculosis and Malaria, leading planning efforts for an avian flu epidemic, coordinating programs in post-armed conflict situations, acting on climate change, and, recently, responding to the food crisis. Comprehensive approaches that link the strands of the development process are essential, and the days when one could plausibly argue that the World Bank should stick to infrastructure are long gone.

The World Bank's mandate starts with economics, though its role and attendant organization and staffing are multisectoral and multidisciplinary. Much debate nonetheless centers on its economic approaches. The Bank's ideal is to be a skilled, disciplined, altruistic, and pragmatic institution, looking objectively at each country's situation, bringing to bear the best global knowledge. Many, however, paint the institution as pursuing a neoliberal economic ideology and applying that ideological vision across the board with little adaptation and little real room for discussion with those affected. "Washington Consensus" is the label applied to a batch of specific economic reforms; the recipe's merits are widely debated, even as the economist who coined the term (John Williamson) protests that such a consensus never existed. A significant and different critique views the World Bank as fatally tinted by statist approaches that interfere with markets.

These different narratives—presented here in caricature form—all contain grains of truth, but the "theology" image is a distortion. Debates about theory and practice rage continuously inside and outside the World Bank, which



Burning Grudge: Protesting the World Bank and IMF meetings in Prague, September 2000

encompasses widely differing schools of thought and approaches. A 2006 evaluation of the World Bank's 1998–2005 research work, commissioned by the Bank and led by Angus Deaton of Princeton University, affirmed the breadth and general high quality of the Bank's economic work. However, it raised important and troubling questions about how far its research and findings are skewed toward positions the Bank has already adopted or wishes to advocate.

The direct, on-the-ground effects of World Bank investments in individual projects, and its economic policy advice, particularly when it conditions finance on specific economic reforms, spark the most significant debates. These turn on three questions: whether Bank approaches to project and policy design are appropriate, whether they are sufficiently geared to different country circumstances, and whether there is proper evaluation of programs and learning from experience.

Environmentalists led the charge against World Bank project lending three decades ago. Criticisms centered on the perceived failure of the World Bank to take into account environmental damage and displacement of people, and critics have since contested a host of other facets of project selection, design and implementation.

Today dam construction projects are subject to extraordinarily intense scrutiny, such that some governments opt to secure financing elsewhere if they can as World Bank involvement seems more trouble than it is worth.

The World Bank has changed in response, for example by focusing far more sharply on community participation and requiring rigorous environmental and social analysis. Further, the "investment project" model that many criticize is barely recognizable anymore, as today's World Bank is more a "wholesaler" than a retailer, supporting broad programs with multi-donor partnerships, engaging civil society and private actors. In many if not most country settings, the Bank links investment lending and economic and social advice. How the Bank advises governments, and the effects of this advice, are actively debated. What should the advice be? How "persuasive" ought the Bank be in delivering it? How far should it delve into detailed policy implementation? These questions play out many times daily across widely different country settings. They touch on practical issues like water and irrigation, as well as theoretical and sometimes esoteric topics like investment climate and intergenerational tradeoffs.

World Bank-supported programs that bolster countries' adjustment reforms come in for sharp debate, too. Critics charge variously that such programs harmed poor communities by cutting jobs, raising prices and increasing fees for education, health and water services; a contrasting view holds that programs stayed on paper. Extensive reviews of adjustment programs by both the Bank and critics offer widely differing accounts of what the Bank tried to do, what actually happened, why countries failed to follow the intended path, and where recommended economic reforms successfully transformed a country's prospects. With extraordinary variation among different situations, simplistic images tend to produce more noise than light.

Debates about the World Bank are increasingly cast in moral and ethical terms. For many years the Bank avoided any public discussion of corruption; there was a tacit assumption that corruption was best dealt with by technical approaches and private, not public, discussion. Corruption came out of the closet at the Bank almost 15 years ago, and current debates are focused more on how best to combat it rather than on whether combat is needed. Strict financial management and, more recently, a battery of "safeguard policies" have been put in place to guarantee honesty and policy integrity.

Other ethical concerns involve human rights issues. Human rights activists remain frustrated in dealing with the World Bank, which, again under pressure from some shareholders, was hesitant even to state publicly its support in principle for human rights. Others argue that the Bank, which must eschew political interference, should not insert itself into the detailed engineering of public management that many governance reforms entail. The Bank prides itself as a world leader in openly and actively fighting corruption and now engages more directly on human rights. But healthy questions continue to arise about how effective the Bank is on the panoply of governance challenges, and how skillfully it navigates the shoals of its Articles of Agreement, which render the "p" word—politics—a constant source of sensitivity.

The World Bank's enigmatic image results both from its diversity of operations in over a

hundred countries and its obtuse organizational structure and practices. The Bank's extraordinary propensity for jargon and acronyms exacerbates the underlying complexity of its work. Its past policies promoted a veil of secrecy around most of its operations. Employees were barely allowed to speak about their activities, leading, not unnaturally, to the common and distorting practice of managed leaks. Information policies today are vastly different, with much Bank work in the public domain, accessible through public information centers and the Bank's extensive website. Even so, many procedures remain rather enigmatic and opaque to most observers. The Bank has a way to go toward its stated goal of transparency and clarity.

The formal governance structure of the Bank is comprised of governors representing 185 governments, each with complex accountability structures. Add to that the Bank's fundamental responsibility to its client governments and, in borrowing countries, to institutions, public and private, with direct interest in the Bank's work. The Bank aims to speak and act for the poorest segments of the population. At times Bank staff members feel like they are accountable to everyone, everywhere, all the time.

Allan Meltzer offers a critical narrative about the Bank that leads him to conclude that the World Bank should be closed down. His line of argument is essentially that the World Bank, created largely to support Europe's reconstruction, played a bit part in that project, then turned its attention to investment finance. As its mandate expanded to social sectors under Robert McNamara's leadership, the Bank failed to achieve results. Insufficient commitment to reform by country leaders and politicians, as well as corrupt practices, derailed well-intentioned policies. Meltzer sees the Bank as "incapable" of reforming, reluctant to adapt needed policy reforms and hampered by internal resistance to anti-corruption measures. He views the semi-autonomous but internal World Bank evaluation apparatus as inadequate, claiming that its outputs mask overall poor results. Besides, he argues, most middle-income countries do not need the World Bank, preferring not to engage with its policy analysis and advice ("hector-

ing", he terms it). And anyway, foreign aid, particularly in very poor countries, does not spur economic growth. My barebones counter-argument, following the same historical thread, arrives at a different conclusion.

The World Bank's mandate and role have changed fundamentally through post-World War II reconstruction, Cold War geopolitics, post-Cold War economic and political configurations, and evolving thinking about what produces economic development. The World Bank has grown and adapted, and its contemporary role differs sharply from that of even 15 years ago. Its analytic work and policy advice are linked to lending and grants; ideas are as important as money. The Bank is adapting to its varied roles as a player in today's immensely complex, often dysfunctional international institution architecture. The Bank's performance varies widely by country and sector, but many of its practices have been transformed: Witness, for example, today's participatory community involvement and rigorous environmental safeguards. The Bank well appreciates that neither reform nor capacity building can succeed without country commitment and leadership, and it works to bolster both. Development and foreign aid are an immensely complex business, but overall the field is advancing with substantial success. The Bank plays dynamic and significant roles in many middle-income countries and needs to continue its work there. But its real focus should be on the poorest countries, especially in Africa, that present the greatest challenges both for global social justice and security.

The contemporary World Bank has great strengths, significant roles to play, and important challenges it is well placed to address. At its best, the World Bank exemplifies what contemporary multilateral institutions can be, with a bold vision (ending world poverty), a genuine commitment to excellence, and strong analytic capabilities, qualities sorely needed across the international system. The Bank has three important assets: unparalleled reach across different "domains" of activity (macroeconomic, sector-specific, enterprise and community, and cross-cutting); a well tuned knowledge capability; and an enviable convening power. The World Bank's capacity to oversee large

financing packages is an important part of international aid architecture.

The United States should help the World Bank to reconcile and surmount the sharply contradictory pressures it confronts: to expand and to consolidate, to reach far and wide and to focus on fewer sectors. The broad perspective that goes with being a global institution is invaluable, but the Bank needs to navigate the shoals of potential dispersion of effort even as it strengthens its analytic capabilities. Information and research may be its most valuable service, but needs are changing fast in the digital age. Fresh thinking and new tools are needed in the development field; as an example, consultative groups that for years coordinated country development programs and vertical sector programs (especially in the health area) cannot now achieve their objectives. New instruments that can frame the larger picture, including private and public, nongovernmental organizations, foundations, and other actors, have yet to emerge.

In this brave new world, the World Bank needs both superb professionalism and a strong ethical compass and habits of integrity. Its data, advice and global pronouncements must be trusted if they are to play their intended role. Financial management must be beyond reproach if the Bank is to press for accountability and integrity in others.

The World Bank needs not a sweeping re-vamping but thoughtful, continuing reforms that focus as much on culture and values as on structure and organization. Reorganizing departments and tweaking mandates is not the answer; the Bank has often smashed organizational china with uncertain results, so a sensible watchword is "handle with care" and look case by case. The Bank's complex mandate and global reach lend themselves poorly to sweeping approaches. The ongoing strategic exercise launched by Robert Zoellick, president since July 2007, covers six sensible if well-traveled issue areas: how the Bank can best support the world's fragile states; the Bank's role in middle-income countries that have ample options to raise finance; approaches to supporting progress in the Arab world; "knowledge", that is, the intellectual component of development work; exercising leadership on "global public goods" (like transnational health

and environmental challenges); and the challenges of the poorest societies. Despite its *déjà vu* quality, this agenda addresses the major challenges facing the development community and thus the World Bank.

The United States has an important role to play as well. The Obama Administration has promised a much needed revamping of American approaches to its multilateral roles. Two early steps could be launching a thoroughgoing reform of American bilateral aid and volunteering a multilateral and merit-based stance on selection of the next World Bank president. These moves, one a serious substantive challenge, the other more a signal of intent, could ease the path for broader reforms and regaining leadership high ground.

U.S. international assistance has become a bewildering maze of programs and institutions. The panoply of programs (Millennium Challenge Account, the President's Emergency Program for HIV/AIDS, Department of Defense development work and USAID, for a start) present practical problems, especially when they butt up against other international programs and private activities (notably foundations). Redefining the balance between bilateral and multilateral approaches will bring greater clarity, but the United States also needs to get its house in order. I join with those who advocate a Cabinet-level development czar to

give this work the priority and discipline it deserves.

An odd historic legacy has the United States naming the World Bank's president (who serves a five-year term). Every time the position vacates, editorials and commentaries advocate an open selection process for this coveted bully pulpit. A preemptive American nomination is then announced. Affirming that the next time the United States will indeed nominate a U.S. citizen who meets high standards, but that it will also join the broad effort to ensure that the best candidate is selected, whatever his nationality, would symbolize a fresh, constructive commitment to multilateralism.

And the unfolding 2008 global economic and financial crisis highlights how sorely creative and credible multilateral leadership is needed, to keep the world's poorest countries at center stage, and to help craft responses to today's barrage of new development challenges. The World Bank is a truly global institution; all key world players (G-8, G-20, G-77 and so on) are active members. With long experience, a raft of different instruments forged over the decades, flexible and proven capacity to manage large financial packages, and a multidisciplinary and highly professional staff, the World Bank is the fittest institution we have to help shape the complex partnerships and bold and coherent response the situation demands. ♣

