

Copyright Information

From Newsweek International 1/17/05 © 2005 [Newsweek, Inc.](#)

All rights reserved. Used by permission and protected by the copyright laws of the United States. The laws prohibit any copying, redistribution or retransmission of this material without express written permission from Newsweek.

A Final Grade For Wolfensohn

Not all his calls were so successful. Indeed, the bank has followed so many fads that these days nobody is quite sure what it stands for.

By Kenneth Rogoff; Rogoff is the Thomas D. Cabot Professor of Public Policy at Harvard and a former chief economist of the IMF.

When World Bank president James Wolfensohn steps down next June after 10 years in office, he surely will be viewed as the most influential man to hold the post since Robert McNamara. Less than a decade ago, the bank was under siege by antiglobalization protesters. Today it's popular in many quarters. And just as Wolfensohn has improved the bank's image, he's transformed his own, from hardnosed investment banker to rock star in the aid community. No wonder so many Bush administration officials are lining up for the job in hopes of memorializing their own image.

Wolfensohn's best call was to notice that with the end of the cold war there was no longer any reason for Western-sponsored aid agencies to slavishly fund corrupt Third World leaders. Only the most naive observer could fail to recognize that poor governance and weak institutions were at the root of the developing world's growth problems.

Wolfensohn asked his staff: Why shouldn't the World Bank president just come clean on the pernicious effects of Third World corruption? And so he did. Why not direct the World Bank's top-notch economists to try to quantify the effects of corruption on growth so that they stared people in the face? He did that, too. Bravo.

Unfortunately, not all of Wolfensohn's calls were quite so successful. One mistake was to make the bank too beholden to development fads, from microfinance to faith-based development. Indeed, the bank has followed so many trends in so many circles that these days, nobody is quite sure what it stands for. One of Wolfensohn's signature reforms was to emphasize that developing-country governments know best what works in their own countries. That's a warm philosophy and politically correct. Unfortunately, however, it contradicts Wolfensohn's own observation that poor governance lies at the root of most poverty in the world today.

The bank, never very tough on "conditionality" (making countries demonstrate good policies in return for funding), has become less so. This has pernicious effects in places like Africa, where the plight of 700 million citizens is one of the great catastrophes of modern times. Whether or not anyone likes to admit it, most African nations have gotten steadily poorer since achieving independence in the 1960s and '70s. The good guys in these countries rely on the bank to provide some broad guidance as to what constitutes

good governance. The bank's staff is brimming with good ideas, but someone at the top has to insist that not all approaches to development are created equal.

Another controversial move was Wolfensohn's decision during the 1990s Asian crisis to declare war by proxy on the bank's sister institution, the International Monetary Fund. The bank was understandably peeved at the U.S. Treasury for forcing it to commit a huge share of its antipoverty funds to bailing out middle-income countries like Korea. Unable or unwilling to attack the bank's major shareholder (America) directly, Wolfensohn tacitly launched his troops in a series of wild-swinging attacks on the fund.

Having the bank slam the IMF was carrying the two sister agencies' usual good-cop-bad-cop routine too far. The bank not only succeeded in deflecting the ire of anti-globalization protesters onto the fund, it poured gasoline on the flames and caused real damage. This tactic surely did little to advance the cause of poverty relief, as the fund is an institution that overall has done far more good than harm in developing countries. Fortunately, the IMF has finally started to rebuild its image over the past few years, thanks in part to (so far) very successful bailouts of Brazil and Turkey.

Aside from improving its focus, perhaps the major challenge for the bank going forward is finding a way to put its finances on a more secure footing. Without going into the hoary details, suffice it to say that the bank's financial structure is a complete anachronism, a remnant of the days when private capital was scarce. The bank, which ought to be structured like an aid agency, is structured like a bank, using "profits" from middle-income country loans to subsidize technical assistance and aid to poorer countries. Someday, unfortunately, these "profitable" middle-income-country loans may well blow up in its face, leaving the institution paralyzed. The next bank president needs to find a way to put the bank on more secure financial footing, ideally by securing \$100 billion paid in endowment funding from rich country governments to supplement the \$35 billion in cash the bank already has on hand. Then, ideally, it could pull out of the lending business.

In a world where a billion people are wealthy and 5 billion are not, nobody can expect straight A's as global antipoverty czar. But all in all, Wolfensohn will pass on an institution that is notably stronger than the one he inherited, and perhaps that is not a bad legacy.