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THE WORLD BANK'S TRAIL OF SORROWS

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INTRODUCTION

As Congress looks for ways to reduce the federal budget, it should start by cutting those programs with the largest gap between the program's stated objectives and the actual outcomes. Under this criterion the World Bank is a prime candidate for elimination. The World Bank, officially called the International Bank for Reconstruction and Development (IBRD), began operations in 1947. Its stated objectives were the reconstruction of war-torn Europe and the economic development of the less developed countries (LDCs). Instead, the World Bank has been the source of human rights abuses, environmental disaster and economic stagnation.

This paper argues that the United States should withdraw from the World Bank and terminate all funding. The U.S. contributes roughly $1 billion per year to the Bank and is liable for up to $30 billion dollars of callable capital. Reform has failed in the past and will not likely lead to a more effective Bank in the future. While a partial cut in funding would be desirable, only total defunding will stop the shameful abuse of the U.S. taxpayer's money by the Bank.

Although this paper focuses on the activities of the World Bank, the arguments made herein apply to all programs of international wealth redistribution. Both bilateral aid and multilateral aid suffer from the same problems which exist within the World Bank. Therefore, this paper implicitly calls into question the efficacy of all foreign aid.

DEVELOPMENT ASSISTANCE: THE FATAL FLAW

Foreign aid is based on the false premise that government can successfully direct the economic development of a country. The evidence to the contrary is overwhelmingly abundant. The socialist states of the Soviet Union and Eastern Europe are prime examples of the failure of government-directed economic development. For years the West marveled at the reports of meteoric economic growth in the communist bloc. However, when the iron curtain fell, the reality of socialism was revealed. Instead of Utopia we saw the worst manmade environmental disasters ever witnessed. Economic stagnation, rampant alcoholism, crime, declining mortality rates, and general misery were the norm, not the exception. Human rights were unheard-of, except when piously expounded upon by communist leaders at international conferences.

Nonetheless, the fallacious belief that governments can create economic prosperity is alive and well within the foreign aid community. In fact, aid agencies depend on the acceptance of this belief for their continued existence. It is time for Congress to critically rethink the intellectual foundation upon which aid programs are based.

FOREIGN AID OR FOREIGN HINDERANCE?

Foreign aid by its very nature cannot lead to economic development. The reason is very simple; aid to LDCs is equal to a very small fraction of GNP, generally less than 3 percent. For example, total aid from all sources to India in the late 1970s was equal to approximately 3 percent of GNP. In 1980, that amount dropped to 1.6 percent.[1] Such a small sum is not capable of jump-starting an economy.

Many argue that even though small, these sums of money do benefit the poor somewhat and are therefore desirable. However, this money cannot benefit the poor because it is given directly to the governments who are primarily responsible for the miserable condition of their people. For example, Official Development Assistance (ODA) makes up 50 percent of Burundi's government budget. It makes up more than 38 percent of government expenditures in Tanzania, over 40 percent in Honduras, 49 percent in Zaire, 31 percent in Rwanda, 60 percent in Mali and Malaysia, and 67 percent in both Niger and Somalia.[2] Third World governments do not spend this money to alleviate poverty, but rather use it as a tool of oppression and a means to prolong their autocratic rule.

HUMAN RIGHTS

The consequences of increasing government budgets by this magnitude have been shocking. Placing such large funds in the hands of governments has increased the power of government over the people they rule with disastrous results.

Often human rights are abused so that countries can qualify for aid. President Mobutu of Zaire expelled all traders and middlemen from the country, thereby lowering that country's per capita income and qualifying it for increased aid.[3] Other methods used to lower per capita income have been the outlawing of entire occupations, discrimination, expulsion, harassment and the slaughter of entire minority groups just because their income was above the national average. Algeria, Burma, Burundi, Egypt, Ethiopia, Ghana, Indonesia, Iraq, Kenya, Malaysia, Nigeria, Sri Lanka, Tanzania, Uganda, Zaire, and Zambia have all engaged in such practices in order to qualify for aid.[4]

The following are examples of World Bank money being used directly by Third World governments to oppress their people.

Tanzania

In the early 1970s, with World Bank aid and advice, Julius Nyerere, president of Tanzania, implemented a villigization program. The military drove peasants from their land, burned their homes, loaded them into trucks and moved them to the *ujamaa* villages and ordered them to build new homes. Approximately 90 percent, or 13 million, of Tanzania's people were herded into these collective farms against their will.[5]

Ethiopia

During the Ethiopian famine in 1983-1984, the World Bank and other aid agencies gave millions of dollars in loans and grants to the government. This aid was intended to lessen the impact of the famine. However, the Ethiopian government spent much of the aid buying trucks which were used to implement a resettlement program. This involved forcefully moving millions of Ethiopians from the rebel-dominated northern region to the government-controlled southern region. The humanitarian group, Doctors Without Borders, reported that more Ethiopians died from the resettlement program than died from the famine. This program was continued until the Ethiopian government fell in 1991. The goal was to move 33 million people or 75 percent of the population. In spite of these actions the World Bank continued sending millions of dollars of aid throughout the resettlement.[6]

Indonesia

The World Bank, together with other aid agencies, beginning in the late 1970s, gave funds to Indonesia for a massive resettlement program to alleviate the "population problem". Half of its population lives on seven percent of its land mass. The project involved the forceful transmigration of millions of Javanese to the tropical forests of Kalimantan, Sulawesi, and Irian Jaya.

According to the Indonesian government this project was designed to "sedentari[ze]" and "assimilat[e]" all Indonesian tribes into the mainstream. The Minister of Transmigration stated that "the different ethnic groups will in the long run disappear...and there will be one kind of man."[7] This goal was quite ambitious considering that Indonesia contains over 300 ethnic groups.

Between 1976 and 1986 the World Bank contributed $600 million directly to the project, which has already resulted in the forceful relocation of six million people. Furthermore, the Indonesian government wishes to move all 800,000 members of the indigenous tribes' people in Irian Jaya from their traditional lands and relocate them in settlement sights on the island by 1998. Resistance to these attempts have met with brutal repression by the Indonesian military. The Irianese have reported bombings from the military. In East Timor, resistance to resettlement has led to the death of an estimated 150,000 Timorese. Peasants, relocated to tropical rain forests are suffering from starvation and destitution. The World Bank continues to "aid" Indonesia but it claims that its money no longer directly finances transmigration. However, this case demonstrates that the World Bank's money is fungible. Any money sent to Indonesia contributes to the financing of transmigration.[8]

CORRUPTION

Third World corruption is another by-product of foreign aid. Many Third World leaders have become fantastically rich while in office. They have all been recipients of foreign aid. Ferdinand Marcos of the Philippines, whose fortune was estimated at $10 billion, is notorious for raiding his country's treasury, much of which was supplied by foreign aid.[9] President

Mobutu Sese Seko of Zaire, worth approximately $5 billion, puts more into his Swiss bank account each year than the $45 million his country receives in foreign aid. The Shah of Iran was worth $20 billion, and the Sultan of Brunei, $30 billion. The Duvaliers of Haiti, Trujillo of the Dominican Republic, Argentina's Peron, and Perez Jimenez of Venezuela also pocketed large sums of money, entirely through embezzlement.[10] Much of that money originated in the developed world and was distributed as development assistance.

Emergency food relief to Ethiopia during the 1973-74 famine was seized by the Haile Selassie government and sold on international markets to line the pockets of regime members, while the rebels were starved into submission. During the 1984-85 famine the Mengistu regime spent $200 million to celebrate the tenth anniversary of the Marxist revolution. It also earned $15 million by charging cargo ships loaded with emergency relief a port-entry fee of $50.50 a ton. Ships unable to pay the fee were turned away.[11] According to Ghanian economist George Ayittey, most African development projects suffer from "corruption and pilfering."[12] Brazil, Haiti, Peru and many other aid recipient countries have suffered from similar kleptocratic regimes.

COLOSSAL AND WASTEFUL PROJECTS

There are many examples of wasteful projects which are literally scattered across the Third World. A project is wasteful if its construction and operation costs exceed the financial benefits. The following projects are once again only a small sampling of an enormous problem.

Akosombo Dam

In the 1950s and 1960s the World Bank contributed to the construction of the Akosombo Dam in Ghana. This hydroelectric dam does not benefit the poor as the power lines from the dam pass over the poor areas and go directly to wealthy areas of the country. It has also been a source of electricity for the U.S.-owned VALCO aluminum plant. Not only do the poor not benefit from this project but they have bourne the costs. When the dam was completed rising waters displaced thousands of Ghanians from their land without compensation. Disease has also been a result of the dam. Over 100,000 people have contacted river blindness and 80,000 more have been permanently disabled from schistosomiasis, a parasitic disease which is carried by the two most common molluscous in the Volta reservoir.[13]

Ranching in Botswana

In 1972 the World Bank contributed $1.65 million towards a $5.4 million project which established cattle and sheep ranches in the savanna grasslands in Botswana. It was estimated that the project would yield a 21 percent return. However, the result was serious overgrazing of the savanna, a negative return and a $2.9 million budget overrun. In spite of this failure, the World Bank and other contributing agencies returned in 1977 to the same area with another ranching project. This one cost $13.4 million to create 100 ranches. After it was completed in 1984, an audit judged the rate of return to be "inconsequential." Finally, in 1989, the Bank approved yet another loan of $10.7 million for another livestock project in the same area.[14]

Kenana Sugar Complex

In what was originally estimated to be a $150 million dollar project, the Kenana sugar complex in Sudan was completed in 1981 at the cost of $613 million. The project included a 40 megawatt power-station, a network of conduits and canals, a pumping station to lift water from the Nile river 150 feet to the fields and a factory which could crush 17,000 tons of sugar a day. This project was intended for the exporting of sugar which would increase the country's foreign exchange earnings. However, the factory was located more than a thousand miles across a desert from the nearest sea port. The exorbitant transportation cost makes it impossible to compete on the world market. Nearly all sugar produced in Kenana is sold in Sudan at prices higher than imported sugar.[15]

Namasigoungou Irrigation Project

An International Development Agency (IDA, the soft-loan affiliate of the World Bank) grant of $15 million dollars was given to the Niger government to construct a high-tech irrigation project. However it was abandoned because the government could not afford the high costs of operating it. Now, money is being given for a nearly identical project just a few miles away.[16]

Phuket Tantalum-Processing Plant

On the island of Phuket in Thailand, a $44 million tantalum-processing plant was constructed with funds from the World Bank. The islanders knew that the ore factory would be noisy and messy and would threaten the local tourist industry. They also found out that the capital-intensive factory would provide few jobs. Being rational individuals, the islanders burnt the factory to the ground shortly before it was scheduled to open for business.[17]

Far from being the exception, these cases are the rule with the World Bank.

ENVIRONMENTAL COSTS

The World Bank has become particularly notorious among environmental groups for the environmentally destructive uses of the projects it funds. For example, the Indonesian transmigration project has led to the destruction of 2.3 million hectares of tropical rain forest. Subsidized ranching in Botswana and the Akosombo Dam project are other examples. The World Bank has funded thousands of environmentally destructive hydroelectric, mining, irrigation and forestry projects. Many of these projects would have been huge money losers in the private sector and therefore would have never been undertaken. However, they exist because construction and operation of these projects are heavily subsidized by the World Bank and by Third World governments. In effect, taxpayers in both the industrialized world and in the Third World are being forced to subsidize environmental destruction.

Brazil

The Polonoroeste project in the Brazilian Amazon is one of the most egregious projects undertaken by the Bank. Between 1982 and 1985 the World Bank loaned $685 million to the Brazilian government to complete BR-346, a 900-mile highway which runs into the province of Rondonia (approximately the size of Oregon) in support of the Polonoroeste colonization project. As a result of the building of this highway, and the active encouragement of the government, hundreds of thousands of Brazilians have relocated to the province in search of economic opportunity.[18] However, the government's promises have turned out to be hollow. The soil in Rondonia cannot sustain profitable agriculture. In fact, after two to five years of farming, the soil cannot even support subsistence agriculture, forcing people to clear new land every few years increasing the total deforestation of Rondonia from 1.7 percent of the total to 16.1 percent. Life for most of the poor who migrated is worse than it was before they arrived.[19]

Also in the Amazon, the Balbina hydroelectric dam project was floundering until the Bank provided a $500 million loan. This small 250 megawatt dam, which has flooded 4,000 square-kilometers, has been a human and environmental disaster of epic proportions. From the moment that the state-owned electric utility, Eletronorte, closed the floodgates there has been nothing but disaster. Because the area to be flooded was not cleared of vegetation, decomposition depleted the rivers oxygen, producing hydrogen sulfide gas and making the water highly acidic. Moreover, many of the flooded plants are very toxic. The result has been the poisoning and complete death of the Uatuma river. Thousands of people who live along the river have depended on it for fish, irrigation, and drinking water. An epidemic of skin rashes, intestinal disorders, headaches, and nausea broke out. Malaria has also become a serious problem. Last but certainly not least, the Brazilian government relocated the Waimiri-Atroari Indians away from the reservoir sight. As a result their population has dwindled from 3,500 to 374. Those left are mostly children.[20]

Such environmental horror stories are common throughout the Third World and they are not caused by greedy capitalists out to make a buck, but rather by governments. The bottom line is that most of these projects are intrinsically uneconomic. They represent a massive drain on the economies where they are located, not economic development. The late political economist, David Osterfeld said it best:

> Although these projects are undertaken in the name of industrialization, they do not contribute to economic growth. They are the modern counterpart of the Egyptian pyramids: colossal, impressive, and a wasteful drain on the resources of the country. As a result, foreign aid has historically led to a 'notable increase in the amount of capital devoted to economically wasteful projects.'[21]

ECONOMIC POLICY

Additionally, Third World governments have engaged in economic policies which are directly responsible for the impoverished condition of their people. Price and wage controls, import restrictions, persecution and expulsion of economically successful minorities, suppression of private trade, property confiscation, forced collectivisation, nationalization of foreign enterprises, licensing restrictions, and confiscatory taxation, have all been used at one time or another by most aid-recipient countries. Despite the free-market rhetoric of many Third World leaders, they continue to exercise extensive control over the economic life of their people. By procuring a steady flow of aid dollars, Third World leaders are able to avoid necessary economic reforms. Foreign aid conceals the real damage being done by bad policies and preserves the status quo.

The Clinton administration's recent $50 billion loan guarantee package to bail out the Mexican government is a prime example of protecting a government against its own failed economic policies. Mexico could bail out itself by selling off national enterprises such as PEMEX, the state owned oil monopoly. PEMEX is the 10th largest company of its kind in the world, but is also one of the most inefficient and debt ridden. If PEMEX were sold, it would free the Mexican people from a huge drain on the economy and encourage a more efficient and profitable oil industry. By bailing out Mexico the U.S. has taken away the incentive for further liberalization of the Mexican economy.

Foreign aid is thus an hindrance to economic liberalization. Osterfeld has stated:

> The influx of aid not only centralizes economic control in the hands of the government, it simultaneously enables the recipient government to camouflage the ill effects of its statist policies, thereby reducing pressure on the government to maintain an environment favorable to private enterprise. Since this discourages private investment, both domestic and foreign, the result is often a net reduction in the amount of capital available.[22]

THE AID GAME

The World Bank assumes that when it distributes money to Third World governments the money will be used responsibly. It has done very little in the past to insure that loans are used effectively. As criticism has increased the Bank has begun to put conditions on loans believing that these conditions will be met. However, these conditions are seldom met and the Bank continues to lend money without verifying the results. LDCs know full well that the Bank will not enforce the conditions. They also know that no matter how poorly the money is used and no matter how the government ruins the economy, the Bank will continue to lend money. Ironically the more they ruin their own economy, the more aid they are eligible for.

Former U.S. Ambassador to Equatorial Guinea, Frank Ruddy, tells of the game that is played in that tiny nation. Equatorial Guinea has a population of 300,000 and receives $30 million a year in foreign aid. The World Bank and the International Monetary Fund (IMF) come every year to negotiate lending terms. The Guineans agree to the terms, break them, and then lie when the officials return for a new round of negotiations.

In 1986 Equatorial Guinea agreed to a whole series of tough austerity measures, including an agreement not to spend any government money on the Central African states meeting which was being hosted there. However, the government went ahead and built 5 villas for visiting heads of state and purchased 29 Mercedes for the participants' use. When the World Bank and

IMF officials returned the Guineans simply denied these actions, the aid officials believed them, and the money continued to flow. This silly game is played out over and over again in many recipient countries.[23]

THE WORLD BANK

Why is the World Bank incapable of achieving better results? The reason is the incentives which Bank officials face. One Bank official described the nature of the incentives as follows: "We are like a Soviet factory. The push is to maximize lending. The . . . pressures to lend are enormous and a lot of people spend sleepless nights wondering how they can unload projects." An audit done in 1987 by the Operations Evaluations Department concluded that "the drive to reach lending targets . . . is a major cause of poor project performance."[24]

World Bank bureaucrats attain job security, promotions, privileges and perks all based upon their ability to find new projects to finance. Their very existence is dependent on their ability to loan huge amounts of money, and to expand the World Bank's operations.

The perks and privileges of World Bank employment are considerable.[25] The World Bank spent $85 million in 1989 to send its staff members around the world.[26] When flights are twelve hours non-stop, over twelve hours long or when business class is not available, all staff members fly first-class. Otherwise they fly business class, but never economy class. Michael Irwin, the director of the World Bank's Health Services Department, wrote a letter to the editor in *The Bank's World*, a World Bank publication, arguing that by flying business or economy class the Bank could save a lot of money. There was an immediate backlash as Mr. Irwin received many letters chastising him for advocating such a plan. One letter stated: ". . . It is appalling that the director of the Bank's Health Services argues publicly for financial savings over staff members' health . . . . *My family and I will not feel safe again until Mr. Irwin has been replaced by someone who really cares* (emphasis in original)." Theirry Sagnier, the editor of *The Bank's World*, wrote to Mr. Irwin saying:

> I have been associated with *The Bank's World* since its creation in 1981 and do not recall ever running a story prompting so many angry responses. My in-box, All-in-1, and doorway were jammed with missives and staff denouncing me for having run the letter. The issue is obviously a highly sensitive one, with staff concerned that management will take away what they deem is not so much a luxury as a necessity. Even though the opinion you stated was your own and not management's, I fear we ruffled the feathers of many at all levels. I'm therefore somewhat reluctant to pursue the issue.[27]

Salaries

The salaries of the World Bank bureaucrats are excellent. For the Africans and Asians working there, pay is sometimes even orders of magnitude above what they would make in government service in their own countries. Even for the Europeans and Americans, salaries in the aid business are much higher than in other lines of work.[28]

The World Bank president earns $190,000 a year plus a $90,000 expense allowance.[29] The 19 vice presidents earn $165,000 a year, and the 58 directors earn on average $105,000 per year. The hundreds of technical advisors, under the top levels just mentioned, earn between $80,000 to $105,000 per year. Salaries of World Bank staffers have been rising faster than the U.S. inflation rate.[30] Additionally, these salaries are tax- free making their taxable equivalent even higher. The Executive Board which represents the member governments, and sets World Bank policy, has very little incentive to lower Bank salaries since board member salaries and benefits are adjusted with rises in bank salaries.

Pensions

Pensions at the World Bank are very generous. Mr. Irwin states that had he finished his two year assignment he would have been entitled to a $5,872 a year pension from the age 62 until his death. In their pension plans, staff members pay seven percent of their salary, while the Bank pays an amount equal to twice the amount contributed by staffers, plus all other amounts required to cover the costs of the plan. All retired staff are guaranteed a lifetime pension with cost-of-living adjustments, and financial security for their survivors.[31]

Other Perks

World Bank employees also enjoy many other perquisites. These include:

- $3,500/yr. grant if spouse earns less than $10,000/yr.
- $600/yr. grant for each dependant child.
- Subsidized meals at work.
- Medical and Dental insurance (staff pay 1/3 of premium).
- Excellent Life insurance.
- Internationally recruited staff get $5,480 in education grants for each child from age 5 to 24.
- Expatriate staff get home-leave travel for themselves and their family. They fly first-class if they go home every three years and business class if they go home every two years.
- For every home-leave trip, expatriate staff receive a grant of $1,070 and a spouse and dependant child each get $534 per trip.
- All staff with green cards having arrived prior to 1985 get expatriate benefits.

Washington-based professional staff who are reassigned to overseas posts in developing countries receive additional benefits, including:

- Free air-conditioned housing with utilities paid and free security guard service if local conditions warrant.

- $5,000/yr. assignment allowance.

- In most locations staff receive an additional "special overseas allowance" from 10 percent of salary in Ankara or Brasilia to a 25 percent bonus in Addis Ababa or Brazzaville, for example.

- In places where cost of living is higher than Washington, D.C. an additional allowance is granted.

- Finally, there are installation and "settling in" grants a "grant on return," as well as allowances for shipping personal effects.

As a result of these overseas benefits staffers can save most if not all of their Washington-based salaries. In speaking of international civil servants, Peter Bauer wryly twisted Adam Smith's invisible hand. He said, "those who sought the public good achieve what was no part of their intention, namely personal wealth.[32]

Other Outrages

The World Bank, along with the IMF, host annual conferences in which they pull out all the stops. In 1986, for example, one such conference was held on Washington, D.C. The 700 planned social events cost an estimated $10 million. The 10,000 attendees were treated to $200 a plate catered dinners, chauffeured limousines, and many other luxuries. Ridgewells, a well known Washington caterer, prepared 29 parties in one day. The Shoreham Hotel estimated that its revenue from the 69 parties it hosted to be $1 million. One party, hosted by the World Bank and attended by 1,500 delegates, offered thirty different foods, ranging from gravadlax to steak tartare to jambalaya. Limousine companies in Washington were doing a brisk business. One manager said that requests outnumbered available limos three to one. A chauffeur commented, "they each have to have their own car."[33]

In 1985 the Bank-Fund conference was held in Korea. In order to insure sufficient parking for the fleet of limos the Korean government destroyed 128 buildings in the impoverished red light district.[34]

In 1991 the government in Thailand spent $100 million to construct the most expensive building ever built in that country. The new building was to be the sight for the IMF/World Bank conference of that year. The area in Bangkok where the building was erected is one of the fastest growing, most congested and most polluted areas in the city. In order to spare the delegates the inconvenience and to make room for their private limos the government simply shut down Bangkok. All banks, government offices, schools and state enterprises would be closed over the two day conference. They also set up a special medical care system with a helicopter, two ambulances, 830 doctors, nurses and technicians to provide free medical care to the delegates. Eight of Bangkok's leading hospitals were placed on emergency alert.

The new conference center was surrounded by slums. The Army was given the responsibility to remove the communities in sight of the conference center. Many of the slum dwellers were relocated to different areas far from their jobs and were given only army tents to live in. Those who were lucky enough to keep their homes were employed in beautification programs to plant trees and grass to improve the appearance of their dwellings. The rest of the homes were bulldozed.[35]

The World Bank is currently constructing new lavish headquarters in Washington, D.C. It covers an entire city block. The project was originally expected to cost $206 million. However, it is now $84 million over budget.[36] If the World Bank can't even properly manage the construction of its own headquarters how can we expect it to conduct reasonable development in the Third World?

THE FUTILITY OF REFORM

In 1987 the World Bank was facing rising criticism of inefficiency and poor project performance from donor countries. It embarked on a reorganization scheme which lasted several months claiming to cut costs and downsizing staff. This reorganization was then given as a reason why the Bank deserved a $75 billion increase in capital, which it received, nearly doubling its lending capacity.[37] The total cost of the reorganization was $148 million and it was estimated that this action would result in a savings of $50 million a year. In 1987 before the reorganization regular staff numbered 6,150 and the administrative budget was $816 million. In 1991 regular staff numbered 6,100 and the administrative budget had increased to $900 million.

There are also 500 long-term consultants, 500 temporary staff, and 375 contractual staff. In 1989 William Cosgrove, the vice president of personnel said that the Bank "could do twice as much with its present staff or only needs half the staff for the present workload."[38] Reorganization has turned out to be a lot of smoke and mirrors, not real budgetary cuts or increases in efficiency. The result however was a massive increase in the Bank's lending power and therefore its primary goal of continued growth was met.

THE PENDING FINANCIAL CRISIS

A study by Patricia Adams warns of a serious financial crisis brewing at the World Bank.[39] This may come as a surprise since the Bank has always been perceived as a financial powerhouse. There are several reasons why the Bank is perceived as a solid institution. The first is the conservative rhetoric of the Bank itself. Second, the Bank has recorded a profit every year of its existence. Third, the Bank's bonds which are sold on international markets have consistently received an AAA rating by Standard & Poor's. Fourth, no World Bank loan has ever been defaulted, even though other lenders have continually had to reschedule, rollover, and forgive debts.[40]

On the other hand, the World Bank lends money to some of the riskiest nations on earth and is one of the world's largest borrowers. The IBRD has $103 billion in loans outstanding and the IDA has $56 billion outstanding. How is the Bank able to maintain such a precarious position? The Bank's financial position is backed up by the taxpayers of the member nations. If several Third World debtor nations default at once, U.S. taxpayers stand ready to bail out the Bank's bondholders. Currently the U.S. is liable for up to $30 billion. This "strong membership [read: taxpayer] support" which "virtually eliminat[es] the possibility of insolvency," is the reason behind the AAA rating.[41]

There is reason to be concerned. As Adams states, "Rather than a financial powerhouse governed by market discipline and exercising investment prowess, the World Bank is a financial cripple propped up by state guarantees and disguised government bailouts."[42] Contrary to Bank assurances that it "does not make loans which in its opinion, cannot be justified on economic grounds," the Bank is neck deep in money-losing debt.[43] A report prepared by Willi Wapenhans, a high-ranking Bank official, found that 37.5 percent of its $140 billion in projects were failing, putting considerable pressure on the Bank's portfolio. The report further stated that the Bank's investment analysis is plagued by bias and in some cases by fraudulent claims to make unviable projects look viable.

In the debt crisis of the 1980s, when Third World debtors were beginning to default on their loans, the World Bank kept the financial ruin of themselves and others at bay by implementing structural adjustment loans (SALs). It was announced that these loans were to be used to help poor countries implement free market reforms. In reality these loans were given to those countries so that they could pay-off old debts to various creditors. These loans were not investments which were meant to garner a positive return but simply balance of payment supports to hide the insolvency of the World Bank and various other lending institutions. Those loans now represent one-fifth of the Bank's portfolio, with zero chance of positive return.

Other results of the debt crises were the so called Baker and Brady plans. These plans were simply a bail out of commercial banks who had made bad loans in the Third World. The private debt was replaced by public debt by a "slow transfer of relative LDC debt exposure from the commercial banks to Western taxpayers . . . . by using international institutions." To pay for the bailout of private banks, IBRD shareholders contributed $75 billion.[44] In 1989, under the Brady plan, the IBRD lent $3.3 billion to restructure over half of the developing countries' total commercial debt.[45]

These actions have only prolonged the inevitable. With such a heavy and unstable debt load it is only a matter of time before the U.S. taxpayer will be asked to bail out the World Bank. However, the U.S. and other rich Western countries have already been protecting the Bank from fiscal insolvency by encouraging bilateral lending institutions such as U.S. AID and the Export-Import Bank to reschedule and forgive debts to those Third World countries who are in danger of defaulting on World Bank loans. A whole host of other "tricks" have been and are being used to keep the world debt structure in place -- all of them financed on the backs of Western taxpayers. Because the U.S. is the largest supporter of the World Bank, contributing 20 percent of the paid-in and callable capital, it is the U.S. taxpayer who will bear the brunt of the coming crisis.

IS THE WORLD BANK NECESSARY?

The World Bank has certainly declined in popularity over the years. This is not surprising considering its record to date. The U.S. Congress has come very close to ending the Bank's funding on several occasions. These near misses have come as a wake up call to the Bank's supporters and they have come up with several arguments as to why any decrease in funding for the Bank would be unwise.

The first argument is one that politicians find hard to resist. It is being argued by the administration and other Bank supporters that giving money to the World Bank means jobs for American citizens. Former Chairman of the Foreign Operations Subcommittee, Patrick Leahy in hearings on the matter stressed the importance of this point. He said, "we have to do a much better job of getting that important message across to the American people . . . a better selling job, making them understand what the pay-off is for the taxpayer's money as we invest in that [the World Bank]."[46]

With the dismal and destructive actions of the Bank revealed, Bank supporters have resorted to appealing to the voters self-interest. However, the selling of foreign aid as a job creator is the most fraudulent argument made yet in support of the Bank. Treasury Secretary Lloyd Bensten has been one the primary disseminaters of this argument. At the above mentioned hearings he said: "Their [the multilateral development banks] lending programs have helped turn developing countries into the most rapidly expanding export market for U.S. goods and services . . . . the lesson is clear -- the dollars we send abroad through the banks come home in increased U.S. exports and more U.S. jobs."[47]

Perhaps such thinking should become a part of our domestic economic policy. Government could take money away from business, and give it to their customers, thereby creating more demand for their products. Better yet let's legalize robbery in those cases where the thief spends the money in the store from which he stole it. Stated in these terms the absurdity of such arguments suddenly become apparent.

Certainly much of the money that leaves as aid does come back into this country. Large, U.S. based multinationals often land lucrative contracts to construct the huge development projects financed by the World Bank. Other U.S. business interests such as agriculture and weapons manufacturers also benefit from foreign aid. But the money extracted from U.S.

taxpayers for foreign aid is simply a large but hidden subsidy to a few select big business interests. The majority of Americans only pay the costs without receiving any of the benefits.

Another argument put forth by Secretary Bensten is the need to finance the "economic and political transition" of countries like the former Soviet Union. As has been already stated: Giving money to governments does not lead to liberalizing economic and political reforms but rather further centralizes power in the hands of the rulers. Even if wealth redistribution could lead to a democratic and market oriented Russia it is foolishness to believe that the West could marshall enough resources to effect such a change.

The cost of German reunification is now running at $100 billion per year and it is estimated that it will cost $1 trillion by the year 2000. Yet, East Germany with a population of only 17 million is suffering from a 35 percent unemployment rate. The huge infusions of cash have done next to nothing fix the East German economy.

It has been estimated by German economists that if the West were to make the same aid commitment to Russia as West Germany has to East Germany it would cost $6 trillion. The few billion dollars that will be sent to Russia through World Bank loans will be completely ineffective in enhancing economic development. It will however make large sums of money available to Russian rulers who have, since 1985, plundered billions of dollars from their country.[48]

CONCLUSION

A look at the record shows that the World Bank (and indeed the entire aid industry) has done nothing to facilitate economic development in the LDCs. Instead it has perpetuated regimes which have been responsible for human rights abuses, environmental destruction and economic ruin.

Bank projects have a long and established history of failure. Since the Bank is supported by a huge, taxpayer guaranteed capital base it is not dependent upon the viability of its projects for survival. This situation has lead to profligate and fraudulent lending practices. Under no circumstances should the U.S. taxpayer be asked to subsidized the tragedies perpetuated by the World Bank. Nor should they be asked to bail out its extravagance.

Finally, the U.S. Congress has no constitutional authority spend the people's money to promote economic development, to establish or uphold democracy in corrupt foreign regimes or to capture foreign markets for specific U.S. exports. Such mercantalist and interventionist practices were abhorred by the Founding Fathers and such powers were purposely withheld from the government of the United States. It is time for the U.S. Congress to end this blatantly unconstitutional support of the World Bank. All funding should be withdrawn immediately.

ENDNOTES:

1.It is generally recognized that the GNP of LDCs is greatly understated. This miscalculation is caused by circumstances which prevail in the Third World. First, LDCs have a large subsistence sector. That is, goods which are produced and consumed within the same household and therefore do not enter the economy. Second, LDCs have a large underground or black market economy. It has been estimated that in India the black market is one half the size of its official economy. In Peru more than 50 percent of all business operates illegally. Since this business activity is not counted in GNP statistics, contribution of aid to economic growth is much smaller that officially stated. See P.T. Bauer, *The Development Frontier*. (Cambridge: Harvard University Press, 1991), p. 50; and David Osterfeld, *Prosperity Versus Planning: How Government Stifles Economic Growth* (New York: Oxford University Press, 1992), p. 10-13.

2.Osterfeld, pp. 150-151 (these are 1989 figures).

3.Osterfeld, p. 158.

4.Ibid

5.James Bovard, "The World Bank vs. the World's Poor," *The Freeman*, May, 1988 p. 184; and Osterfeld, p. 206.

6.Osterfeld, p. 143.

7.Graham Hancock, *Lords of Poverty: The Power, Prestige, and Corruption of the International Aid Business*, (New York: The Atlantic Monthly Press, 1989) pp. 134.

8.Hancock, pp. 133-138.

9.William McGurn, "Philippine Development and the Foreign Assistance Trap," in *Perpetuating Poverty: The World Bank, the IMF and the Developing World*, Doug Bandow and Ian Vasquez, eds. (Washington, D.C., Cato Institute, 1994), pp. 240-41.

10.Osterfeld, p. 210.

11.Osterfeld, p. 147.

12.George Ayittey, "Aid for Black Elephants: How Foreign Assistance Has Failed Africa," in *Perpetuating Poverty,* p. 139.

13.Hancock, pp. 140-141; Osterfeld, pp. 142-143.

14.Hancock, p. 139.

15.Hancock, p. 148.

16.Osterfeld, p. 157.

17.Hancock, p. 150.

18.Osterfeld, p. 143.

19.Hancock, p. 132; Bruce Rich, *Mortgaging the Earth: The World Bank, Environmental Impoverishment, and the Crisis of Development* (Boston: Beacon Press, 1994) p. 28.

20.Patricia Adams, *Odious Debts: Loose Lending, Corruption, and the Third World's Environmental Legacy* (London: Earthscan, 1991), pp. 16-20.

21.Osterfeld, pp. 149-150.

22.Osterfeld, p. 151.

23.Ayittey, pp. 143-144.

24.Osterfeld, pp. 156, 157.

25.For the most part the numbers presented in the following sections on remuneration are current. Some of the numbers are from 1990. This, however, is inconsequential. All comparisons, with the exception of travel policy, show that remuneration has risen in every category.

26.Osterfeld, pp. 153-54.

27.Michael Irwin, and members of the World Bank, "Let Them Eat Honey-Roasted Peanuts," *The Washington Monthly*, June 1990, pp. 34-37.

28.Hancock, p. 79-80.

29.Paul Lewis, "A 3-Way Race to Head the World Bank," *The New York Times*, February 13, 1995.

30.Irwin, pp. 36-38.

31.Irwin.

32.Osterfeld, p. 157.

33.Hancock, pp. 37-40.

34.Hancock, p. 40.

35.Rich, pp. 1-4.

36.Sharon Walsh, "World Bank Complex Costing $84 Million More Than Budgeted," *The Washington Post*, September 23, 1993.

37.Doug Bandow, "What's Still Wrong With The World Bank?" *Orbis*, Winter 1989, pp. 73-89.

38.Irwin, p. 36.

39.Patricia Adams, "The World Bank's Finances: An International S&L Crisis," *Policy Analysis* No. 214 (Washington, D.C.: Cato Institute, October 3, 1994).

40.Hancock, pp. 53-54.

41.Adams, pp. 3-4.

42.Adams, p. 9.

43.Adams, p. 4.

44.Adams, p. 8.

45.Adams, p. 9.

46.U.S. Senate Appropriations Committee, Foreign Operations Subcommittee, "Hearing Regarding U.S. Role in Multilateral Development Banks," *Federal News Service*, March 22, 1994.

47.Ibid

48.Approximately $30 billion in assets and hard currency has been stolen and sent abroad by high-ranking party officials between 1985 and 1991. Since Boris Yeltsin has taken over another $15 billion has left the country in similar fashion. See, Arnaud de Borchgrave, "Eurogloom Foreshadows Social Upheaval," *The Washington Times*, October 4, 1993.