

# The World Bank and the political construction of structural adjustment programs in the 1980s

*O Banco Mundial e a construção política dos programas de ajustamento estrutural nos anos 1980<sup>1</sup>*

João Márcio Mendes Pereira\*

## RESUMO

O artigo discute a gestação e operacionalização dos programas de ajustamento estrutural do Banco Mundial ao longo da década de 1980, situando o tema nos marcos das mudanças mais amplas em curso na economia política internacional. O trabalho problematiza a relação entre o Banco Mundial e o seu Estado-membro mais poderoso, os Estados Unidos, mostrando as tensões entre o Executivo e o Congresso em torno da definição da política norte-americana para a instituição. Evidencia-se um conjunto de pressões sobre o Banco que concorreram para delimitar o seu campo de atuação. Mostra-se como a pauta dos programas de ajustamento estrutural cresceu junto com a gestão da crise da dívida externa e a quais interesses a atuação do Banco Mundial serviu.

Palavras-chave: Estados Unidos; governo Reagan; dívida externa.

## ABSTRACT

The article discusses the administration and operation of World Bank structural adjustment programs during the 1980s, contextualizing the theme in a framework of on-going broader changes in the international political economy. The work questions the relationship between the World Bank and its most powerful member-state, the United States, showing the tensions between the executive and Congress in relation to the definition of US policy for the institution. A set of pressures on the Bank are shown to have helped constrain its field of action. Also discussed is how the set of structural adjustment programs developed alongside the administration of the foreign debt crisis and which interests the World Bank's actions served.

Keywords: United States; Reagan administration; foreign debt.

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\*Universidade Federal Rural do Rio de Janeiro, Instituto de Ciências Humanas e Sociais, Departamento de Letras e Ciências Sociais. Campus de Seropédica. Rodovia Rio-São Paulo, BR 465 Km 7. 24210-350 Seropédica – RJ – Brasil. joao\_marcio1917@yahoo.com.br

*The societies which have achieved the greatest and most spectacular economic progress in the faster time have not been the biggest, nor the richest in terms of resources; nor certainly have they been the ones controlled most strongly. What these societies have had in common is the trust in the magic of the market. Millions of individuals making their own decisions in the market will always allocate resources in a better manner than any planning process of centrally planned government.*

Ronald Reagan

Speech to the Annual Meeting of the International  
Monetary Fund and the World Bank in 1981

## RELATIONS BETWEEN THE US GOVERNMENT AND THE WORLD BANK, 1981-1982

With the coming to power of Thatcher in the United Kingdom in 1979 and Reagan in the United States in 1981, the global political environment suffered a brusque and long-lasting liberal-conservative jump. For this New Right the reform of capitalism in the 1950s and 1960s had created a type of socialism, which had to be annihilated. Furthermore, the time was right for this, since this obstacle had not been supported by economic growth since 1973. At the same time in the international sphere, the Anglo-American axis stimulated the liberalization of national economies. At the same time the 'strong dollar diplomacy' which commenced in 1979, combined with a political and military offensive led by Regan against the Soviet Union, consubstantiated a movement towards the reformation of the hegemony of the United States in the international system.<sup>2</sup>

The relationship between the World Bank<sup>3</sup> and the United States of America, its largest shareholder, deteriorated rapidly. The Reagan administration began to attack the Bank and other multilateral institutions for political and ideological reasons, preaching the reduction of the given to them and the strengthening of bilateral programs. Bipartisan divisions in the US Congress about policy towards the Bank reached an extreme and for the first time since 1944, the government supported the chorus of opponents to all and any modality of multilateral assistance. Until then all the previous

governments had supported the Bank as part of its external infrastructural power system and an important instrument for US hegemony.<sup>4</sup>

To have an idea of the level of hostility, one of the first measures of the new Undersecretary of the Treasury was to order a study to discover whether or not the World Bank had 'socialist tendencies' because it made loans to the public sector. According to this discourse the state and multilateral institutions should not substitute what the private sector could do more efficiently.<sup>5</sup>

The nomination of Tom Clausen to run the World Bank in June 1981 improved relations with the White House and Treasury. The arrival of the former president of Bank of America – one of the largest public creditors in Latin American countries – represented at that moment a type of direct connection between the US bank and the presidency of the World Bank. The message to the 'market' was clear. Signaling how the game had changed, shortly afterwards some of the exponents of the previous administration left and were replaced by names closely associated with the resurrection of neo-classical economic and the neoliberal platform. This game of musical chairs was one of the first chapters of the intellectual and political genocide of the old Development Economics guard within the Bank.<sup>6</sup>

Immediately, the Clausen administration (1981-1986) abandoned the banner of poverty reduction advocated by the Bank during the administration of Robert McNamara (1968-1981). The public declarations and internal documents practically no longer made reference to this question. The doctrinaire and operational center of the Bank came to be economic liberalization.<sup>7</sup>

In August 1981, a report was published which condensed the core of the new political line. The Berg Report – as it became known<sup>8</sup> – was the Bank's response to the deterioration of economic and social indicators in Sub-Saharan Africa during the 1970s. Its central message was that the post-colonial state had become excessively large, inefficient and interventionist. The implicit corollary was that the import substitution strategy had failed. Without mentioning in whose interests this trajectory had followed, the report indicated as an alternative a significant reduction in the size of the state, the adoption of 'cost reduction' (charges) in previously free public services and an increase in private control over the economy in general. In particular, a coherent agenda of reforms was prescribed in trade, exchange rate, and agricultural policies aimed at stimulating commercial liberalization

and productive specialization aimed at the exportation of primary goods. An increase in external economic assistance to the region was recommended as a form of pushing forward reforms and catalyzing external capital flows, once the governments prepared the adjustments advocated by the Bank and IMF.

At the beginning of 1982 the US Department of the Treasury published a report intended to guide US policy toward Multilateral Development Banks (MDBs). For the Treasury the performance of the Bank and the other MDBs proved that they were effective instruments in the service of US interests. Specifically about the Bank the report highlighted that:

The international nature of the World Bank, its corporate structure, the solidity of its administrative team, and its strong voting structure have assured a strong consistency between its policies and practices and the long term economic and political objectives of the United States.<sup>9</sup>

According to the report, the Bank's loans to countries of strategic importance for the United States were one of the means by which US interests were met, since these loans came to a total far higher than what the US was willing to bilaterally provide. Furthermore, the Bank's loans also served long-term US economic interests related to the unregulated international capitalist system. In the words of the Treasury:

By promoting economic and social development in the Third World, accelerating market orientated economic policies, and preserving a reputation of impartiality and competence, MDBs encouraged developing countries to participate more fully in an international system based on liberalized flows of trade and capital... This signifies the expansion of opportunities for American exportations, investments and finance.<sup>10</sup>

The report translated the neoliberal platform into various policy recommendations, of which three in particular should be mentioned. First, US support of MDBs should be designed to accelerate the opening of national markets and the superiority of private capital in financing economic activity in relation to the public sector. Second, the United States had to work to ensure that the allocation of loans was dependent on carrying out political reforms in countries receiving them. Third, the United States had to gradually reduce its expenditure with MDBs, without relinquishing its veto power in them.<sup>11</sup>

A few months later, in August 1982, the Mexican government declared a moratorium and the foreign debt crisis of Latin American countries exploded. It was the culmination of a process of indebtedness practiced exhaustively for two decades. Between 1973 and 1981 Mexico had got heavily into debt: World Bank loans had quadrupled and those of private banks had increased six-fold. In 1982 the country had approximately 550 banks as creditors. US banks were the most compromised, having lent far more than their net assets authorized them to do, without any type of Treasury supervision, and with the full connivance of the twin Bretton Woods institutions, namely, the World Bank and the IMF.<sup>12</sup>

#### THE FOREIGN DEBT CRISIS AND THE ACTIONS OF THE WORLD BANK

From 1973 to 1979 a series of events aggravated the instability of the international economy. On the one hand, since the end of the 1960s tensions in the monetary system had made the convertibility of the dollar into gold increasingly difficult for the United States. In response the country unilaterally broke with the Bretton Woods monetary system in a sequence of measures implemented by the Nixon administration: in 1971 the link between the dollar and gold was cut; in 1973, the fixed but adjustable parity system was abandoned, in favor of floating exchange rates; in 1974 restrictions on the movement of capital in the United States were ended. All this was part of a strategy of destroying the rules which limited US dominion over international monetary policy, through the transformation of the monetary system based on the gold standard to one solely based on the dollar. On the other hand, central countries suffered from a combination of inflation, low levels of growth, and the increase of unemployment – in particular after the first oil price shock, caused at the end of 1973 by OPEC – and increasingly responded with defensive policies from the commercial and monetary point of view. In turn, a small number of peripheral countries (such as Brazil, Mexico, South Korea and Taiwan) continued to have high growth rates throughout the decade, at the cost of foreign debt contracted at a galloping rate, resulting from plenty of cheap credit offered by private international banks charged with recycling oil income. Meanwhile the large majority of non-oil exporting peripheral countries either became impoverished or had low growth rates.<sup>13</sup>

In 1979, along with the second oil crisis came the brusque increase in the US interest rate, with the intention of countering domestic inflation and propelling the return of the dollar to supremacy in the international monetary system. Combined with the liberalization of capital flows, the measure forced the overvaluation of the dollar and redirected international liquidity to the United States, submitting the economic policy of all capitalist countries, both allies and competitors, to a recessive adjustment synchronized with US policy. In a short space of time floating interest and exchange rates came to be tied to the dollar and as a result movements of international liquidity came to be subordinated to US fiscal policy. US government body became the liquid asset *par excellence* of the international economy, obliging those with excess financial assets to acquire them. Strong dollar diplomacy' was on the march.

The confluence of the second oil shock and the about-turn in US monetary policy with the fall in the prices of raw materials significantly increased the cost of the foreign debt of the countries which had been financing their economic growth through external savings. In turn, the World Bank concentrated even more its loan portfolio in modalities which allowed elevated disbursements, supported the balance of payments and served to obtain foreign currency which could allow debts to be extended and to maintain the foreign debt cycle. In this way the amounts loaned doubled between the fiscal years of 1978 and 1981, concentrating on certain preferential clients, all highly indebted.<sup>14</sup>

At that time, the Bank condensed its political and intellectual actions on a well-defined objective: asserting the 'structural adjustment' as the necessary and legitimate means to adapt indebted countries to the new conditions of international economic policy. In May 1979, the Bank announced the creation of a new instrument: the structural adjustment loan, disbursed rapidly and aimed at policies not projects. Authorization for this type of loan was based on the borrower country carrying out a stabilization program agreed in advance with the IMF and a package of macro-economic policy reforms, both aimed at adapting the domestic economy to the new external environmental and maintaining the payment of debt servicing.

The first loan of this type was approved in March 1980 for Turkey and became a 'prototype' for subsequent loans (Kapur et al., 1997, v.1, p.548; Toussaint, 2006, p.103-104). The Bank's top echelons had close ties with the

politicians and top ranking officers of the Turkish state, particularly after the beginning of McNamara's administration, and saw the January 1980 military coup as an opportunity to implement a hard-line adjustment program. The new government put into practice an agenda in harmony with the Bank's prescriptions, aimed at, amongst other objectives, reducing the fiscal deficit, reducing public investment, and increasing export incentives. Turkey already had a special place in international geopolitical sphere due to its strategic location. Following the Soviet invasion of Afghanistan and the Iranian Revolution, ensuring the stability of the country within its field of influence became even more important for the US, through the provision of ostensive support for the coup and the new regime. The World Bank was part of this strategy providing a series of loans.<sup>15</sup>

In 1981 structural adjustment was the theme of the World Development Report (WDR), the most important annual publication of the Bank. The report identified various factors responsible for the strangulation of indebted countries, but stated that there was no problem of generalized indebtedness and also gave optimistic – and erroneous – forecasts about the flow of private capital to the periphery in the following years. The institution again encouraged the use of foreign savings for indebted countries to adjust to the new conditions of the global economy, described as 'permanent.'

The Bank adjustment program consisted in general terms of the same monetarist agenda applied by the IMF since the 1960s.<sup>16</sup> In the sphere of macro-economic policy, this involved: liberalizing trade, aligning the prices of the international market, and lowering protective tariffs; devaluating the currency; stimulating the attraction of external investment and the free circulation of capital; stimulating productive specialization and expanding exports, especially agricultural ones. In the sphere of social policies and state administration, the central target of the adjustment was the reduction of the public deficit, especially through measures such as: a) the cutting of expenditure on personnel and the administrative machine; b) the drastic reduction, or even the removal, of consumption subsidies; c) the reduction of the *per capita* cost of programs, in order to expand the amount of coverage; d) the reorientation of social policy to primary education and health, through the focusing of expenditure on that part of the population in conditions of 'absolute poverty.'

When the crisis exploded the monetary authorities of the G7, led by the United States changed overnight from being extremely tolerant with the *laissez-faire* to the inflexible demand that the norms of banking regulation be respected. To prevent the political articulation of debtors and a possible series of moratoriums, as had happened in 1930s, this time the creditors implemented a tough case by case negotiation strategy.

The monetary authorities in the United States and the United Kingdom, the IMF, and the International Payments Bank (IPB) diagnosed the crisis as a problem of liquidity and not solvency. The solution to the crisis therefore had to be based on the restoration of solvency, and the path to this was to keep debt servicing up to date, not by reducing the debt load or diminishing the difference between the debt and the servicing. How? Promoting internal adjustments aimed at reorienting production to export goods, through the reduction and redirecting of public expenditure.<sup>17</sup> The IMF was responsible for granting aid packages in exchange for short-term stabilization programs and the assumption of private debts by the state. It was expected that within three to five years the measures implemented would have reactivated growth and sustained the payment of the servicing of the debt. The World Bank soon joined this strategy as an auxiliary force for the IMF. The structural adjustment loans then being made were instrumentalized to serve the adaptation of debtor economic policy to the demands of international creditors. Protection mechanisms or partial compensation of the most vulnerable social groups were not cogitated.

World Bank discourse about indebtedness changed completely after the Mexican moratorium. External causes were deemed to be secondary and responsibility for the crisis was attributed to erroneous economic policies (Stern; Ferreira, 1997, p.560). In other words, to internal problems resulting from economic mismanagement. A radical jump overnight.

As if this was not enough, Latin American countries suffered an external shock: the interruption of the concession of new loans by foreign private banks, exactly what the World Bank had stated would not happen. The decision of the private banks lasted for almost a decade and blocked in practice the access of debtor countries to the international financial system. Since the financing of economic activity and, increasingly, of the state itself, became highly dependent on foreign resources, the interruption of capital condemned



the countries on the periphery to stagnation, increasing, on the other hand, their dependence on loans from the Bretton Woods institutions.

The design of the structural adjustment programs did not occur in a complete form following the explosion of the debt crisis. Actually, the scope and breadth of the conditions demanded by the World Bank and the IMF depended on the decisions of the principal actors involved in managing the crisis. Between 1982 and 1986 the central object of the adjustment programs was short term macroeconomic stabilization, leaving medium and long term political reforms in a secondary position. All the programs were based on containing internal consumption, by squeezing wages, cutting social expenditure, and reducing public investment: all to assure the payment of the debt servicing. Table 1 shows the financial commitments made for adjustment purposes between 1980 and 1993 per region in percentages.

Table 1 – World Bank financial commitments  
for adjustment purposes per region  
Fiscal Years 1980-1993 – Percentages

Loans	1980-82	1983-86	1987-90	1991-93
Adjustment/total of loans	7	18	26	23
Structural/total of adjustment	87	40	45	51
Sector/total of adjustment	13	60	55	49
<i>Percentage of total loans for adjustment per region</i>				
Africa	23	26	23	22
East Africa	21	11	12	3
Europe and Central Asia	31	16	9	19
Latin America and the Caribbean	7	35	41	32
North Africa and the North of Africa	0	6	8	10
Southern Asia	18	5	7	13
Highly Indebted Countries (a)	12	57	54	37

Source: KAPUR et al., 1997, p.520.

(a) Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ivory Coast, Ecuador, Jamaica, Mexico, Morocco, Nigeria, Peru, the Philippines, Uruguay, Venezuela and Yugoslavia (until April 1993).

Operating through the IMF, during the 1982-1986 period the World Bank provided 37 structural adjustment loans. Furthermore, increasingly larger loans aimed at basic education, earmarked as being 'for the formation of human capital,' came to be used as a means of carrying out the adjustment, with fiscal conditions being built in. From then on the influence of the Bank on the design of education policies increased significantly in light of the progressive weakening of Unesco, caused by the departure of the United States and the United Kingdom in 1984.<sup>18</sup>

After 1983, following the creation of sectorial adjustment loans, the Bank gained greater power to exert pressure. The new instrument soon came to be more used than its predecessor, in part because so many conditions were demanded that there was an operational need to separate the adjustment loans into smaller and more focused operations. It was also a form of bypassing the increasing criticisms of the violation of the sovereignty of debtor states. Thus, the strategy chosen was to divide the adjustment sector by sector.

The World Bank and the IMF adopted the 'shock treatment' focus. According to this approach, the earlier, the quicker, and the stronger the 'austerity shock' was, the less political difficulties the government implementing it would have. This focus was coherent with the belief that it was a short-term adjustment.

After 1982 an important part of the resources received as bilateral development aid and as loans obtained from the IDA began to be used to service the debts of African countries with the IMF and the World Bank. In the middle of the decade two out of every three dollars provided by the IDA returned to the Bank as payment for previous credit, while most of the remaining dollars went to the IMF for the same reason. From 1983 onwards, one of the most perverse faces of the 'debt trap' began to operate continuously, in Latin America in particular: the net negative transfer through which billions of dollars were pumped abroad annually, either as payment to public and private creditors, or for tax evasion. In 1984 a debate about this emerged in the World Bank but it was rapidly silenced. After this the Bank omitted from the calculation of net transfers how much debtors had paid in interest (Sanahuja, 2001, p.159; Toussaint, 2006, p.197-198).

Questions such as debt forgiveness and the social costs of the adjustment became taboos within the Bank during the Clausen administration. Under the

administration of Anne Krueger the economic research area of the Bank was remodeled, so that the 'official party line' would be followed, according to internal statements collected by Stern and Ferreira (1997, p.598). The content of publications also became the subject of more rigorous surveillance.

The institutional component built into loans was modified. Generally speaking, until then the interference of the Bank in this area had concentrated on the creation of enclaves within the state aimed at the administration and dissemination of development projects, or the creation of institutions responsible for the preparation and implementation of sectorial policies. With the adjustment policy, the institutional provisions came to simultaneously involve public agencies from various sectors at different levels of the government, with the aim of redesigning completely the material structure of the state.

Emphasis on macroeconomic policy and institutional reform was also part of the training activities of public administrators developed by the Institute of Economic Development, linked to the World Bank. After 1983 the number of courses, workshops, and meetings concerned with these aims increased significantly.

Not by change the question of public administration was the subject of the 1983 *World Development Report*, the first produced after the eruption of the debt crisis.<sup>19</sup> To ensure that the fiscal adjustment was achieved, the report recommended: a) the creation of a central authority responsible for the coordination and the adaptation of sectorial policies to the macroeconomic agenda; b) the creation or improvement of a unified information system about public expenditure in the three levels of government; c) greater selectivity on the part of the state in the direct provision of infrastructure and basic services, increasing the amount subcontracted to private companies; d) decentralization in the provision of basic services, including the use of resources coming from private sources (entrepreneurs, non-governmental organizations, and the users themselves); e) reform of the productive state sector, aimed at changing how workers were hired, making managers and workers in general responsible for low levels of efficiency, and the liquidation of infeasible companies. The eventual sale of public companies seen as inefficient was contemplated, but *en masse* privatization was not envisaged.

The financial crisis worsened and the US government, despite maintaining the vision that it was a short-term liquidity problem, accepted that more

coordinated action was necessary, as well as access to new money on the part of debtors. In September 1985, the US Treasury Secretary, James Baker, announced a revision of the debt management strategy. In general terms, the Baker plan proposed that private banks finance development projects, while the debts would be converted into shares of companies in debtor countries. It was intended that this mechanism be linked to structural adjustment loans from the World Bank, seen by Washington as useful instruments for dealing with the debt crisis and at the same time advancing economic liberalization. The plan did not take off, above all due to the veto of commercial companies over the granting of new loans. However, the initiative strengthened immensely the role of the Bank as the co-administrator of debt alongside the IMF.

Alongside the Baker Plan, the Treasury also defined the priorities which WDBs should follow to implement the adjustment. In addition to the traditional package of macroeconomic and financial measures, the remodeling of public expenditure through decentralization and, above all, the privatization of public companies, especially those which were part of the state productive sector. The conditions demanded by the World Bank were, thus, extended to new areas.

The Baker Plan came together with Treasury pressure — with the support of President Reagan and against the recommendations of the Department of State and the National Security Council — to reduce the US contribution to IDA, despite the willingness of the other donors to discuss the repositioning of 12-16 billion dollars, if the United State would pay its share. The US contribution fell from 3.240 billion dollars (6th Replenishment, 1981-1984) to 2.250 billion (7th Replenishment, 1985-1987). For the first time, funds were reduced between one Replenishment and another (Gwin, 1997, p.231; Kapur et al., 1997, v.1, p.341). The actions of the US reduced the total Replenishment, which amounted to 9 billion dollars, 25% less than the sixth.

## THE GOVERNABILITY OF STRUCTURAL ADJUSTMENT

The rapid fiasco of the Baker Plan, as well as the recessive effects of the stabilization plans put into practice in some countries (Brazil and Argentina, for example), left it clear that for (public and private) creditors that they were not facing a mere liquidity crisis. There thus emerged a concern with the political sustainability of the adjustment. Until then the official discourse had

been that the simple adjustment was ‘good for the poor,’ since it benefited them directly. This discourse changed in the middle of the 1980s, when the Bank began to admit the occurrence of certain ‘social costs.’

This new position coincided with Barber Conable’s assumption of the presidency of the Bank in July 1986, and the replacement of Anne Krueger by Stanley Fischer as Vice-President for Development Economics and Research. After this the *modus operandi* of the adjustment required the creation of palliative social compensation programs to alleviate, in a focused and short-term manner, the impact on those parts of the populations hardest hit and most susceptible to supporting the opposition.

Frequently these operations were organized using through emergency social funds aimed at creating safety nets, in order to reduce social tensions aimed at the population in conditions of poverty or the parts most vulnerable to the adjustment. The first operation of this type occurred in Bolivia in December 1986. According to the Bank’s political calculations, it was necessary to give a governmental reply in order to reduce social protest and to guarantee the continuity of an energetic adjustment program.

Shortly after the pilot experience in Bolivia, there emerged criticisms from within the United Nations system of the monetary and fiscal austerity demanded by the twin Bretton Woods institutions. “Adjustment with a human face” was the title of a UNICEF report which very quickly made a great impact.<sup>20</sup> This was not a critique of the merit of the adjustment, but its manner of implementation and some of the terms of its content. World Bank economists refuted the report, but from that moment onwards, the leadership of the Bank stopped stating in public that the adjustment was simply ‘good for the poor.’

In addition to the pilot experience in Bolivia, other factors caused the World Bank to gamble on the creation of social funds as the preferential instrument for poverty relief and legitimating the adjustment. The first was the growing involvement of NGOs in the identification, implementation, and administration of Bank projects, a process which had been developing slowly and irregularly since 1982, when a committee was created to develop cooperation between the Bank and US environmental NGOs. The second was the greater publicizing and vulnerability of the Bank’s activities to US and European public opinion, especially in relation to the environmental impacts of the projects

financed, but also the social impacts of the adjustment programs. From both sides, the Bank saw itself obliged to relate to environmental groups and other interest groups capable of pressurizing it through publicity campaigns and lobbies in the US Congress and in some European parliaments.

The need to prevent the repetition of the fiasco of the 7<sup>th</sup> IDA Replenishment IDA forced the new president to fight for financing, a struggle which lasted from 1986 to the beginning of 1988. At play were the funds for the 8<sup>th</sup> IDA Replenishment (1988-1990) and the general increase in IBRD's capital.<sup>21</sup> Since the Bank was already aligned with the positions of the Treasury, the focus of the efforts to obtain more funds was Congress.

The pressure on the Bank increased during those years, coming from various directions. Some of the large projects financed by the institution – such as Polonoroeste in Brazil, the dams of the Sardar Sarovar project on the Narmada River in India and the Transmigration Program in Indonesia – ran into new forms of social struggle and greater linkages between the populations directly impacted, local mediators, and international environmental and human rights NGOs. Social aspects also gained strength, though with less of an impact than the environmental struggle. In September 1987, for example, international NGOs got almost two hundred members of congress to sign a document which demanded that the Bank make a commitment to minimize the negative social impacts of structural adjustment programs.<sup>22</sup> This confluence of pressures forced the presidency of the Bank to include the environmental question and the reduction of extreme poverty as central themes in its campaign for funds from the US Congress and the parliaments of important donor countries.

At that moment the 'environmental question' made the Bank extremely vulnerable, since it threatened two points vital to the progress of its operations: the increase in the general capital of IBRD and the 8<sup>th</sup> Replenishment of the IDA.

In effect, since the beginning of the 1980s the lack of observance of any environmental criteria in the Bank's operations had been strongly criticized by environmental NGOs, with the first project to be the subject of this was Polonoroeste, a colonization project in the Amazon Region associated with the construction of the BR 364 Highway. Between 1983-1987 the NGO campaign denounced Polonoroeste as the most extreme case of social and

environmental devastation sponsored by the Bank. There were a profusion of articles published in prestigious international journals and in important newspapers in the United States. Also transmitted in the United States and other countries were television documentaries, with the participation of Brazilian and US environmentalists. More than twenty hearings were held on the social and environmental impacts of projects financed by the World Bank and the other WDBs in six sub-commissions of the US Congress. The NGO campaign was aimed at pressurizing member states to force the Bank to reform its procedures and to establish environmental safeguard policies, in a context in which the 'environment' appeared as a subject of increasing concern in the scientific and political environments.<sup>23</sup>

In 1985 the NGOs allied with the Republican Senator Robert Kasten, a critic of foreign aid who then held the highest ranking position in the Senate in relation to the World Bank. Using the case to oppose US contributions to IDA, the senator pressurized the president of the Bank and the Secretary of the Treasury for changes in the institutions, threatening not to authorize the US donation. In May of the same year, the president of the Bank met for the first time with environmentalists, in a meeting sponsored by Kasten (Rich, 1995, p.123-125).

After 1986, the US Treasury began to pressurize the Bank for environmental changes. This was because, to carry forward the debt crisis administration strategy defined by the Baker Plan and to ensure the payment of debts with private US banks, the Bank's structural adjustment loans had to be expanded. At that time, it was evident that IBRD needed a general increase in its capital to fulfill the mission the Treasury had assigned it. However, this increase depended on the approval of Congress. This situation obliged the Treasury to endorse the environmental proposals so that the Congress could not use motives of this type to withhold a general increase in the capital of IBRD (Wade, 1997, p.667-668, 673).

During 1986-1987, the campaign expanded and intensified, with the involvement of more NGOs and the denser articulation of US, European and peripheral country NGOs. In 1987, Congress was scheduled to approve an increase in the contribution of capital to IBRD and the 8th Replenishment of the IDA. As a tactical response to the threat to cut the Bank's resources, the Conable administration implemented a series of administrative measures in

1987 to highlight changes and began to accept environmental NGOs as legitimate interlocutors.

The government made great efforts to win the support of Congress, commencing with its own supporters. In the presentation of the request for authorization from Congress to duplicate the general capital in 1988, the government emphasized that the Bank, by participating in the administration of the foreign debt crisis, had increased its disbursements by more than 40% since 1985 and needed additional capital, and that the Bank was acting as an important catalyst in the peripheral countries of the economic reforms which were of strategic interest to the US. Congress gave solid approval, which to a great extent was due to the Executive's for the World Bank's operations (Gwin, 1997, p.238-239).

## THE END OF THE COLD WAR AND THE WASHINGTON CONSENSUS

Gradually the World Bank and the IMF replaced the private banks as principal creditors, but its actions brought no relief for debtors, whose indebtedness increased during the 1980s.

At the beginning of George Bush's administration in January 1989, the new Secretary of the Treasury, Nicholas Brady, was charged with proposing a second revision of the foreign debt strategy. For the first time, the so-called Plano Brady recognized the need to reduce debt in the highly indebted countries as a condition to return to economic growth. The scheme proposed that indebted states buy US Treasury bonds as a guarantee for the issuing of new bonds, which generously remunerated creditors, who in exchange accepted longer terms and a small discount in the debts. The World Bank and the IMF followed the determination of the Treasury and Federal Reserve, authorizing new loans conditioned on a prior commercial opening. In the 1989 *World Development Report* the Bank for the first time defended the financial deregulation of peripheral countries, insisting on the elimination of all instruments for the control of interest rates and all programs of credit aimed at industrial activity.

At the end of 1989 some of the principal forces which had been pushing neoliberal capitalist restructuring held a meeting to evaluate the results achieved and to decide on the next steps. The participants were part of the leadership of the network of political, financial, and intellectual power in the



Washington-Wall Street complex. In addition to the members of Congress, there were representatives from the Department of the Treasury, the World Bank, the IMF, the Inter-American Development Bank (IDB), the United States Agency for International Development (Usaid) and the principal US *think tanks*. There were widespread agreements among them about the packages of economic reforms underway in practically Latin American and Caribbean countries, as well as the need to accelerate their implementation within and outside the region. The prescription, published in 1990, became known as the 'Washington consensus.'<sup>24</sup>

Built over the ruins of the Berlin Wall, this prescription rapidly gained the status of the sole paradigm of triumphant capitalism, serving to tie the governments of peripheral countries to a political program based on the liberalization of the world economy to the flow of goods, services and capitals and the reform of the state, and as the provider of a normative framework which could guarantee the security and the profitability of private enterprise.

However, strictly speaking the novelty in the consensus compiled by Williamson consisted less of the list of economic measure and more in the widespread agreement among the US government and the principal actors in the Washington-Wall Street complex. This was because the Washington Consensus continued, albeit to a greater extent, the prescriptions made by the IMF since the 1960s, whose stabilization programs and stand-by agreements invariably involved measures of commercial liberalization, currency devaluation, exemptions and subsidies to foreign capital and inflationary control (through the control of bank credit, high interest rates, the reduction of the fiscal deficit, increase of the prices charged by public companies, and the abolition of consumption subsidies and price control).<sup>25</sup> The novelty at the end of the 1980s was the incorporation of large-scale privatizations, the *cost-recovery* policy applicable to social services, judicial strengthening of private property, and the legalization of the informal sector of the economy. At the same time the consensus expressed the end of Washington's tolerance of a world of 'national capitalisms' and the offensive of capital against the set of social and labor rights forged in the post-war period.

More than its formal aspect, the consensus symbolized a more profound change in the correlation of internal and external forces in societies, in particular Latin America. The processes of privatization, commercial opening,

financial deregulation and the deregulation of the economy, modified the configuration of property, wealth, and power, redefining the economic and political weight of social actors and leading to new connections between local bourgeoisie and the most dynamic forces of financial globalization. In the name of technical rationalization and compliance with macroeconomic canons, this process privileged export sectors – especially those linked to agricultural and mining products – to the detriment of industries, increasing the level of mercantilization of social life and eroding social and labor rights that had been bitterly won in previous decades. The structural and sector adjustment programs pushed by the Bretton Woods twins and implemented by governments in harmony with the new agenda fed this reconfiguration by functioning as ‘chains of transmission’<sup>26</sup> of economic liberalization and the reform of the state throughout almost all the periphery.

In Latin America, more than in any other region, the end of the cold war and the commencement of the neoliberal avalanche coincided with the process of political opening. Rapidly the new political platform was internalized to the extent that a large part of the principal Latin American political forces, from practically all ideological and party viewpoints, aligned themselves with the idea that there was only a single objective to pursue: the construction of a free market economy open to capital. This objective, in turn, could only be achieved by following a single path: the destruction of national sovereignty in questions of political economy and the annihilation of all and any social and labor ‘costs’ which might be incurred on the profitability of capital. In the principal countries in the region, new political coalitions committed to a neoliberal platform obtained a series of election victories – in 1988, Salinas de Gortari in Mexico; in 1989, Carlos Menem in Argentina, Alberto Fujimori in Peru, Carlos Andrés Pérez in Venezuela and Collor de Mello in Brazil; in 1990, César Gaviria in Colombia. In the same period, negotiations with international creditors reached an end and the gates of the international financial system opened again, through financial globalization. It did not take long for the creation of new alliances and access to the great wave of international liquidity to allow for the political conditions to create a new type of monetary stabilization plans, which seemed in the 1990s to be ever more independent of governments.

## CONCLUSION

The actions of the World Bank during the 1980s centered on the promotion in client countries of the liberalization of national economies through structural adjustment programs, culminating in the 1989 Washington Consensus. It was thus something very distant from strictly technical actions, as the official discourse of the institution stated. In fact, the construction of the World Bank's structural adjustment programs was above all political, since it closely following the provisions of the US Treasury and of the Federal Reserve and served to defend the interests of private creditors and to constrain the economic policies of indebted countries. The documentation and the wide-ranging and diversified international literature cited in this article – including the literature published by the Brookings Institute and organized by Devesh Kapur et al., for the World Bank itself – prove this.

Relations with the US, in the form of support, injunctions, and criticisms, were always decisive for the general configuration of the World Bank's agenda and institutional practices, as well as the gravitation and the weight of its policies. On the other hand, US policy to the Bank since Bretton Woods was the subject of disputes and bargaining between various business, financial, political and ideological interests in relation to the role of multilateral cooperation and external assistance for development. In the 1980s the rising activism of Congress in relation to US foreign policy affected the World Bank, opening entrance points for various interests to influence US provisions towards the institution. Until then Washington's policy to the Bank had basically been defined by power play between the Treasury and the Department of State outside the sight of public opinion and parliament. The activism of Congress created opportunities for political groups and US non-governmental organizations to act within parliament, with the aim of questioning the Bank's actions in social and environmental terms. Since then Congress has become the target of lobbies and publicity campaigns aimed at influencing US policy towards the Bank. This has transformed the US Congress into the only parliament whose considerations actually have an impact on the Bank's agenda and actions, which paradoxically has increased the influence of the US on the organization.

## NOTES

<sup>1</sup> This article covers aspects that are extensively discussed in PEREIRA, João Márcio Mendes. *O Banco Mundial como ator político, intelectual e financeiro (1944-2008)*. 1.ed. Rio de Janeiro: Civilização Brasileira, 2010.

<sup>2</sup> HOBBSAWM, Eric. *Era dos extremos: o breve século XX – 1914-1991*. 1.ed. São Paulo: Companhia das Letras, 1995. p.245; TAVARES, Maria da Conceição. A retomada da hegemonia norte-americana. In: \_\_\_\_\_. *Poder e dinheiro: uma economia política da globalização*. 1.ed. Petrópolis (RJ): Vozes, 1997. p.27-53.

<sup>3</sup> The World Bank Group is part of the so-called World Bank Group (WBG), which consists of seven organizations with different mandates, political weight, administrative structures and decision making bodies. These are: the International Bank for Reconstruction and Development (IBRD), created with the International Monetary Fund (IMF) at the 1944 Bretton Woods Conference; the International Development Association (IDA), created in 1960; the International Financial Corporation (IFC), set up in 1956; the International Centre for the Settlement of Investment Disputes (ICSID), in existence since 1966; the Multilateral Investment Guarantee Agency (MIGA), from 1988; the Economic Development Institute (IDE), founded 1955 and renamed the World Bank Institute in (WBI) in 2000, and the Inspection Panel, created in 1993. The World Bank is formed only of IBRD and the IDA, but it has close ties with the WBG, with the partial exception of the Inspection Panel. IBRD grants loans to solvent countries with low and middle incomes, raising resources in capital markets and loaning them to its clients in conditions close to those of the international financial markets (*hard loans*). The reserves for its operations are called 'general capital' and comes from contributions made in unequal proportions by member-states, and can only be increased by negotiations among the members. On the other hand, the IDA makes long term loans with low interest rates (*soft loans*) to poor countries with a poor or no capacity to borrow in market conditions. IDA has three sources of financing: contributions from IBRD, the payment of interest on the loans it makes, and most importantly voluntary contributions negotiated with donor countries every three years. While the IBRD makes a profit and is financially based on capital markets, IDA depends on voluntary contributions from donor states to survive – starting with the United States, which was the largest donor until the period in question. The share of each donor entails intense negotiations with the others. Voting power in the World Bank – and in the IMF – is unequal and proportional to the amount of capital contributed by each member state, an amount which is politically negotiated by states. In an informal agreement in operation since 1944, the president of the World Bank has always been a US citizen nominated by the United States.

<sup>4</sup> GWIN, Catherine. U.S. relations with the World Bank, 1945-1992. In: KAPUR et al., 1997. v.2 (Perspectives), p.228.

<sup>5</sup> KAPUR, Devesh et al. *The World Bank: its first half century. History*. 1.ed. Washington (DC): Brookings Institution Press, v.1 (History), 1997. p.338.

<sup>6</sup> GEORGE, Susan; SABELLI, Fabrizio. *La religión del crédito: el Banco Mundial y su imperio secular*. 2.ed. Barcelona: Intermón, 1996. p.163-175; KAPUR et al., 1997, v.1 (History), p.338-339; SANAHUJA, José Antonio. *Altruismo, mercado y poder*. 1.ed. Barcelona: Intermón Oxfam, 2001. p.116-119; GOLDMAN, Michael. *Imperial nature: the World Bank and struggles for social justice in the age of globalization*. 1.ed. New Haven/London: Yale University Press, 2005. p.91-92.

<sup>7</sup> It is sufficient to look at the most important annual publication of the World Bank, the Reports on World Development for this period. See also: KAPUR et al., 1997, v.1 (History), p.349; BABB, Sarah. *Behind the Development Banks: Washington politics, world poverty, and the wealth of nations*. Chicago & London: The University of Chicago Press, 2009. p.79-83.

<sup>8</sup> WORLD BANK. *Accelerated development in Sub-Saharan Africa: an agenda for action*. 1.ed. Washington (DC): Oxford University Press, 1981.

<sup>9</sup> UNITED STATES OF AMERICA. *United States participation in multilateral development banks*. Washington (DC): Department of the Treasury, 1982. p.59, apud GWIN, 1997, p.270.

<sup>10</sup> UNITED STATES OF AMERICA. *United States participation...*, p.48, apud GWIN, 1997, p.271.

<sup>11</sup> The principal recommendations are summarized in BABB, 2009, p.88-89; GWIN, 1997, p.230-231.

<sup>12</sup> STRANGE, Susan. *Dinero loco: el descontrol del sistema financiero global*. 1.ed. Buenos Aires: Paidós, 1999. p.121-122; WOODS, Ngaire. *The globalizers: the IMF, the World Bank and their borrowers*. 1.ed. Ithaca/London: Cornell University Press, 2006. p.84-94; TOUSSAINT, Eric. *Banco Mundial: el golpe de Estado permanente*. 1.ed. Madrid: El Viejo Topo, 2006. p.185.

<sup>13</sup> TABB, William. *Economic governance in the age of globalization*. 1.ed. New York: Columbia University Press, 2004. p.82-83; BRENNER, Robert. *O boom e a bolha: os Estados Unidos na economia mundial*. 1.ed. Rio de Janeiro: Record, 2003. p.67-73; VELASCO E CRUZ, Sebastião. *Trajetórias: capitalismo neoliberal e reformas econômicas nos países da periferia*. 1.ed. São Paulo: Ed. Unesp, 2007, p.364-365; GOWAN, Peter. *A roleta global: uma aposta faustiana de Washington para a dominação do mundo*. 1.ed. Rio de Janeiro: Record, 2003. p.45-50; SERRANO, Franklin. *Relações de poder e a política macroeconômica americana, de Bretton Woods ao padrão dólar flexível*. In: \_\_\_\_\_. *O poder americano*. 1.ed. Petrópolis (RJ): Vozes, 2004. p.190-204.

<sup>14</sup> McNAMARA, Robert. *Discurso anual ante la Junta de Gobernadores*. Washington (DC): The World Bank, 30 set. 1980. p.33; BANCO MUNDIAL. *Annual Report*. Washington (DC): The World Bank, 1978-1981, p.156-157 and p.174-175.

<sup>15</sup> From 1980 to 1984, the Bank authorized 32 structural adjustment loans with a total of US\$4,390 billion, of which US\$1,555 billion, nothing less than 35%, went to Turkey. Cf. MOSLEY, Paul et al. *Aid and power: the World Bank and policy-based lending*. 1.ed. London: Routledge, 1991. v.1, p.39.

- <sup>16</sup> LICHTENSZTEJN, Samuel; BAER, Mônica. *Fundo Monetário Internacional e Banco Mundial: estratégias e políticas do poder financeiro*. 1.ed. São Paulo: Brasiliense, 1987. p.196-199; BROWN, Michael Barrat. *Africa's choices after thirty years of the World Bank*. 1.ed. Boulder: Westview Press, 1995. p.68-69.
- <sup>17</sup> TOUSSAINT, 2006, p.193-194; STERN, Nicholas; FERREIRA, Francisco. "The World Bank as intellectual actor". In: KAPUR et al., 1997, v.2 (Perspectives), p.560.
- <sup>18</sup> MOSLEY et al., 1991, p.39; KAPUR et al., 1997, v.1 (History), p.348; DREIFUSS, René. *A Internacional Capitalista: estratégias e táticas do empresariado transnacional – 1918-86*. 2.ed. Rio de Janeiro: Espaço & Tempo, 1987. p.96; LEHER, Roberto. *Da ideologia do desenvolvimento à ideologia da globalização: a educação como estratégia do Banco Mundial para 'alívio' da pobreza*. São Paulo: Tese (Doutorado) – Faculdade de Educação, Universidade de São Paulo. São Paulo, 1998. p.13.
- <sup>19</sup> BANCO MUNDIAL. *Informe sobre el Desarrollo Mundial*. 1.ed. Washington: Oxford University Press, 1983.
- <sup>20</sup> CORNIA, Giovanni et al. *Adjustment with a human face*. 1.ed. Washington (DC): Oxford University Press, 1987.
- <sup>21</sup> IBRD financed its loans by raising funds in financial markets, but the Bank's general capital is guaranteed by member states, based on negotiations which define the percentage of the funds to be paid by each member, and consequently their voting powers.
- <sup>22</sup> RICH, Bruce. *Mortgaging the Earth: the World Bank, environmental impoverishment, and the crisis of development*, 1995, p.148-169; KAPUR et al., 1997, v.1 (History), p.367-368.
- <sup>23</sup> WADE, Robert. *Greening the Bank: the struggle over the environment, 1970-1995*. In: KAPUR et al., 1997, v.2 (Perspectives), p.653; GWIN, 1997, p.239.
- <sup>24</sup> WILLIAMSON, John. *What Washington means by policy reform*. In: \_\_\_\_\_. *Latin American adjustment: how much has happened*. 1.ed. Washington: Institute of International Economics, 1990, p.5-20.
- <sup>25</sup> TOUSSAINT, 2006, p.205; PAYER, Cheryl. *The debt trap: the International Monetary Fund and the Third World*. 1.ed. New York: Monthly Review Press, 1974, p.33.
- <sup>26</sup> CHERU, Fantu. *Efectos de las políticas de ajuste estructural en el goce efectivo de los derechos humanos*. Informe apresentado à Comissão de Direitos Humanos do Conselho Econômico e Social das Nações Unidas, 24 fev. 1999, p.9. Available at: [www.observatorio-politicasocial.org/images/PDF/Biblioteca/biblioteca\\_2010/ONU\\_docs/Informes\\_relatores/Pobreza/1999\\_2\\_informe\\_efectos\\_de\\_politicas\\_ajuste\\_estructural\\_goce\\_efectivo%20de\\_dh.pdf](http://www.observatorio-politicasocial.org/images/PDF/Biblioteca/biblioteca_2010/ONU_docs/Informes_relatores/Pobreza/1999_2_informe_efectos_de_politicas_ajuste_estructural_goce_efectivo%20de_dh.pdf); Accessed on 9 Aug. 2011.