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THE WORLD BANK AND ECONOMIC GROWTH: 50 YEARS OF FAILURE

INTRODUCTION

President Bill Clinton has recommended that the United States give more money to institutions like the World Bank. The Clinton Administration has obligated the U.S. to contribute \$800 million to one of the Bank's agencies, the International Development Agency.¹ This is about \$100 million more than was requested for the last fiscal year. Spending more on the World Bank ignores the overwhelming evidence that its programs have done little to promote economic growth in less developed countries. Moreover, it ignores the economic lessons of what really causes countries to develop.

Since its founding in 1944, the World Bank has been involved in over 165 countries. The Bank argues that less developed countries stand little chance to prosper economically without substantial subsidized loans from the developed world. It further contends that it is uniquely positioned to meet this challenge and that it must continue to transfer capital to poor countries.

The World Bank is wrong. The data show that most long-term recipients of World Bank money are no better off today than they were when they received their first loan. Many are actually worse off. Consider the following:

- X Of the 66 less developed countries receiving money from the World Bank for more than 25 years (most for more than 30 years), 37 are no better off today than they were before they received such loans.
- X Of these 37 countries, most (20 in all) actually are poorer today than they were before receiving aid from the Bank.

¹ For purposes of this paper, "the World Bank" and "the Bank" are used interchangeably.

Former less developed countries that have prospered over the past 30 years did so by freeing up the productive forces of their economies. The best examples are Hong Kong and Singapore. Even though a country like Singapore received a small amount of money from the World Bank, the evidence shows that what most effected economic growth was not World Bank aid, but economic freedom.

Congress would do well to take a critical look at the World Bank's history and programs. If it does, it will find that the Bank's approach to economic development has not worked. Rather than let the Bank try to reform itself, as it claims it has tried repeatedly to do in the past, the U.S. should withdraw financial support altogether. Specifically, the U.S. Congress should:

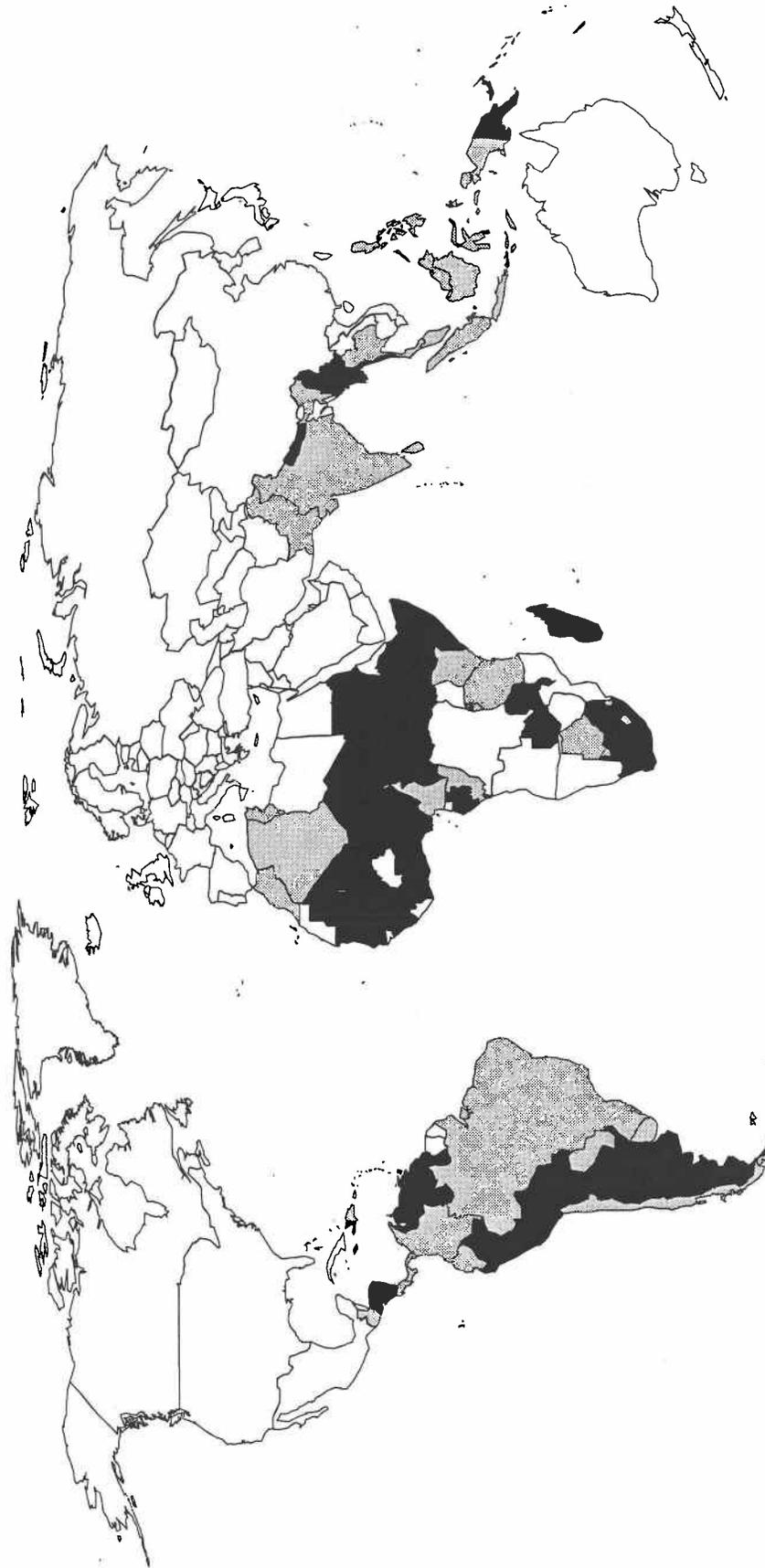
- ✓ **Phase out financial support for the World Bank.** Last year the U.S. paid \$1.2 billion to the World Bank. In addition, the U.S. has pledged some \$28 billion to the World Bank that has not been disbursed. However, the Bank can call on the U.S. at any time to disburse funds up to this amount. While it would be best to end any future liabilities by terminating all World Bank funding immediately, at the very least Congress should begin to phase out funding for the Bank by cutting this year's budget request to no more than 50 percent of the current level. All funding should be terminated by 2002.
- ✓ **Seek a General Accounting Office audit of World Bank lending practices.** The U.S. General Accounting Office (GAO) long has analyzed the effectiveness of such foreign aid programs. A new study should be commissioned to analyze the effectiveness of current World Bank lending practices.
- ✓ **Make remaining funding contingent on public access to World Bank records and information.** The World Bank is a highly secretive organization, which blocks the ability of outsiders to monitor its effectiveness. Congress should make further funding contingent on the full release of World Bank records and information.
- ✓ **Require that the Administration provide Congress with a report on the level of economic freedom in World Bank recipient countries.** Congress should require the U.S. Representative to the World Bank, Jan Piercy, to provide it with a report detailing the economic conditions that exist in countries that receive World Bank loans and grants.

WHAT IS THE WORLD BANK?

Officially named the International Bank for Reconstruction and Development (IBRD), the World Bank was founded in 1944 by the 44 nations that met at Bretton Woods, New Hampshire, to establish a new post-war international economic system. Today, the Bank has 178 members; only 12 nations are not members. The United States is the largest contributor, providing some \$53 billion since 1944.² Even though the U.S. has reduced its funding as a percentage of the Bank's total deposits from 29.3 percent in 1965 to 17.5

² World Bank annual report, 1995, pp. 150-153, 176.

Countries Receiving World Bank Loans for 25 Years or Longer



■ Countries With Per Capita Growth Less Than or Equal to 25 Percent (37)

■ Countries With Per Capita Growth Greater Than 25 Percent (29)

percent in 1995, it remains the Bank's largest donor and has pledged more money to the Bank than any other country.³

World Bank members provide contributions based on the size of their economies. The larger and wealthier the economy, the more the country is likely to give. A country's voting power is based on the amount of its contributions. Since the U.S. is the biggest donor, it therefore has the most voting power.

The World Bank is governed by several bodies. These are:

- 1) **The Board of Governors.** Overall authority resides with a president and a board of governors. The board includes one individual from each member country. It meets annually to receive a report on financial matters from the executive directors, an elected group of 25 representatives from the Bank's total membership. The board also reviews any other matters that the executive directors present to it.
- 2) **Executive Directors.** General operations are overseen by a 25-member group of executive directors: one representative from each of the five largest donors (the United States, Japan, Germany, France, and Britain) and 20 elected by the remaining 174 donor countries. This group reviews loan proposals submitted by the president of the Bank and has the final authority to approve or decline a loan.
- 3) **The President.** The president of the World Bank is appointed by the executive directors, typically for a five-year term. Though no written article requires it, traditionally the president is an American. The current president, James D. Wolfensohn, formerly an international investment banker, was appointed to a five-year term on June 1, 1995.

Arms of the World Bank. There are several institutions that make up the World Bank, each with a unique mission. Throughout its 50-year history, members of the Bank have created many arms, known collectively as "the World Bank Group."⁴ These are the International Finance Corporation (IFC), the International Development Association (IDA), the International Center for Settlement of Investment Disputes (ICSID), and the Multilateral Investment Guarantee Agency (MIGA). Each has its own mission and goals.

- 1) **The International Finance Corporation (IFC).** The Bank established the IFC in 1956 to provide loan guarantees and subsidized loans to businesses in less developed countries. These loans, usually long-term, are focused on equity investment (like stock markets) and similar lending. Interest rates are supposed to be the going market rates, which vary between countries and with the proposed project. Maturity on the loans is generally 13 years, with a grace period of up to eight years. Some 80 percent of the funding is borrowed by the Bank from international financial markets and through public bond issues. The rest is borrowed from the IBRD. Each year, the IFC approves some \$4 billion to \$5 billion in new financing.⁵ In 1995, the U.S. contributed \$36 million to the IFC.

3 World Bank annual reports, 1965 and 1995.

4 For purposes of this paper, "the World Bank Group," "the World Bank," and "the Bank" all refer to the collective bodies that make up the institution.

5 *International Finance Corporation Annual Report 1995*, World Bank, 1996.

2) The International Development Association (IDA). The Bank established the IDA in 1960 to provide assistance to poor countries that cannot afford to borrow money from the IBRD. The funds are provided separately by donor nations and through IBRD investment profits. Two types of loans have been offered through this branch of the Bank: IDA credits and Special Fund credits. The IDA no longer makes Special Fund credits, but many are still in effect. Special Fund credits were granted with a 50-year maturity and a 10-year grace period during which no interest was applied. The interest rate on these credits is merely 0.75 percent. IDA credits are now the IDA's sole lending vehicle. They have the same service charge as was applied to the Special Fund credits. They also have the same 10-year grace period, but a shorter maturity of 35 or 40 years.

The United States also is the largest shareholder in the IDA, holding some 15 percent of the total votes in 1995. The U.S. has contributed some \$21 billion since 1960,⁶ and contributed \$1.1 billion in FY 1995 alone.

3) The International Center for Settlement of Investment Disputes (ICSID). The Bank established the ICSID in 1966 to promote an increased flow of international investment to areas of the world where foreign investors chose not to invest. The ICSID arbitrates disputes, helps put countries seeking investment in touch with investors, and provides advice, analysis, and studies on investment opportunities around the world.⁷

4) The Multilateral Investment Guarantee Agency (MIGA). The Bank established MIGA in 1988 to remove some of the risk for investors investing in poor countries. MIGA provides investors with guarantees on many types of investments. It also provides governments with advice on improving their investment climate to attract more foreign investment. MIGA may insure up to 90 percent of an investment, with a current limit of \$50 million per project. In 1995, it guaranteed some \$672 million in investments and had another \$210 million in outstanding credits.⁸ The U.S. contributed \$22 million to MIGA in 1995.

How the World Bank Makes Loans and Grants. Each year the Bank considers many loans. Though loan proposals officially are submitted by the president of the Bank to the executive directors, in reality the executive directors often work with the president's staff to develop proposals. Thus, the approval process is often merely a formality. The United States has no veto power over Bank loans, and the Bank frequently approves loans that the U.S. has opposed.⁹

The Bank's funds are derived from country contributions and from investments the Bank makes in financial markets. The Bank sells bonds and other debt securities to pension funds, insurance companies, corporations, other banks, and individual investors. Its

⁶ "The World Bank, A Global Partnership for Development," World Bank Internet site <http://www.worldbank.org/html/extdr/glance.html>.

⁷ *Ibid.*

⁸ *MIGA Annual Report 1995*, World Bank, 1996.

⁹ See Melanie S. Tammen, "World Bank Snookers U.S. Congress Again," Heritage Foundation *Backgrounder* No. 649, May 23, 1988.

original source of income is contributions by member countries. Countries receiving loans are charged an interest rate, currently 7.27 percent. This rate is adjusted every six months. Maturity on the loans is generally from 15 to 20 years, with a five-year grace period.

HISTORY OF THE WORLD BANK

The World Bank has undergone a major transformation since it started in 1944. The Bank claims it has kept up with change to deal with the new challenges facing less developed countries. This contention is debatable, but it is true that the fundamental mission today is substantially different from what it was in 1944.

Lender of Last Resort. In the beginning, the Bank's primary mission was to loan money to the war-ravaged countries of Western Europe and Japan to help them get on their feet after World War II. These loans were intended to help rebuild roads, bridges, electrical plants, and other public facilities and enterprises.¹⁰ Japan and the European countries would use World Bank loans when private bank loans were not forthcoming. Many private commercial banks refused to lend these nations money because they were bad risks, some of them having defaulted on World War I and post-World War I debts.

From 1944 to the mid-1950s, most World Bank loans went to the developed countries in Europe that had suffered extensive damage in World War II. Therefore, even though the Bank loaned some \$543 million for the reconstruction of Europe, the money was absorbed by countries that essentially were advanced developed economies with strong economic foundations in banking, property rights protection, the rule of law, functioning courts, and borders open to foreign investment.

Because these countries already had the basic building blocks of an advanced economy, they were able to put the World Bank loans to productive use. Yet U.S. private investment in post-war Europe played a larger role in reconstruction than the World Bank. The World Bank loaned Western European countries \$543 million from 1945-1950, while U.S. private investment was \$1.76 billion for the same period.¹¹ Therein lies the real success story of Europe's recovery. While it is true that funding from the World Bank, other financial institutions, and the Marshall Plan helped rebuild war-torn Europe, the biggest impact on Europe's economic recovery came from private foreign investment.

An International Welfare Agency. By the late 1950s, it became clear that the World Bank had served its purpose. Europe and Japan were well on their way to recovering from World War II. Private foreign investment was pouring into these regions to take advantage of their renewed economic strength. America realized its economic dominance in the world as U.S. investment flowed abroad to fuel economic development and

10 According to the original Bretton Woods mission statement, "The purposes of the Bank are: to assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war and the conversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries." *Articles of Agreement*, International Bank for Reconstruction and Development, World Bank, 1989.

11 Bureau of Economic Analysis, U.S. Department of Commerce.

growth. At this time, the Bank faced a fundamental choice: It could dissolve because its major goal had been met, or it could evolve into something not imagined by its creators.

Eventually, the World bank decided on the second course. By the mid-1960s, the Bank began to transform itself from a lender of last resort to an international welfare agency to assist the poor and less developed countries of the world. In 1960, for example, the Bank created the International Development Agency (IDA), which makes subsidized loans to poor countries either unable to afford private commercial loans or regarded as bad credit risks. Even though the original mission statement made casual reference to the "less developed" world, the Bank's founders largely had envisioned this as purely advisory. Yet the Bank began to give more than advice to less developed countries; in the 1960s, it began to give them substantial loans.

McNamara's Brainchild. The mastermind of this transformation was former U.S. Secretary of Defense Robert S. McNamara, who took charge of the World Bank in 1968. To fund McNamara's new international welfare clearinghouse, the Bank had to seek ever-increasing levels of contributions from donor countries.

Also under McNamara's watch, the Bank formulated a new concept, called "sustainable development," that became the IDA's principal mission. Stated simply, this means that less developed countries can achieve sustainable levels of economic development only if enough resources are transferred from wealthy countries to poor countries. If loans are any measure of success, McNamara was "successful" indeed. By 1981, when McNamara resigned as president of the World Bank, lending had grown more than tenfold, from \$883 million to \$12 billion. World Bank lending and grants continue to grow, today totaling over \$20 billion.¹²

The World Bank remains fully committed to this kind of thinking, with most of its bureaucrats dedicated to the McNamara dogma. A book published in 1995 by the World Bank and the International Monetary Fund to commemorate their 50-year anniversary claims that "This institutional evolution has been matched by a changing approach to development. The early focus on discrete projects has evolved into a broader emphasis on policies, strategies, and institutions, and a more holistic approach to development....[The World Bank] Group's primary concern is to help borrowers reduce poverty and improve living standards by promoting sustainable growth and investment in people."¹³ In other words, the World Bank is not the institution created in 1944 by the Bretton Woods Agreement; it has changed from lender of last resort to international welfare agency.

¹² *Ibid.* and "The World Bank Group: Learning from the Past, Embracing the Future," World Bank, 1995.

¹³ James M. Broughton and K. Sarwar Lateef, eds., *Fifty Years After Bretton Woods*, International Monetary Fund and World Bank Group, 1995, p. 3.

DECADES OF FAILED POLICIES

While many of the Bank's economists are free to acknowledge the importance of macroeconomic reform in the recipe for economic growth, many of the Bank's officials continue to place too much emphasis on the importance of multilateral institutions to less developed countries. For example, former World Bank President Lewis T. Preston said in 1995: "Of fundamental importance, the Bank Group has evolved from being simply a financier of development to being also a trusted advisor on development, sharing its global experience of what does and does not work and helping its member countries to apply the lessons....Fifty years of experience have validated the Bank Group's fundamental objective today: helping borrowers reduce poverty and improve living standards through sustainable growth and investment in people."¹⁴

Thus, the Bank seems to claim not only that it has been successful at reducing poverty and improving living standards in less developed countries, but also that its continued existence is vital to the economic prospects of less developed countries in the future. Yet all the evidence shows that this is not true. Since its inception, the World Bank has provided over \$356 billion to countries around the world, mostly to the less developed world.¹⁵ But most recipients are no better off today than they were before receiving such aid. In fact, many are worse off. Consider the following:

- X Of the 66 less developed countries receiving money from the World Bank for more than 25 years (most for at least 30 years), 37 are no better off today than they were before they received such loans (see Table 1);¹⁶
- X Of these 37 countries, 20 actually are worse off today than they were before receiving aid from the World Bank (see Table 1);
- X Of these 20, eight have economies that have shrunk by at least 20 percent since their first World Bank loan (see Table 1); and
- X The remaining 17 countries have economies today that are essentially the same as when they first received aid from the World Bank (see Table 1).

While many countries are no better off today than before they received money from the World Bank, some have performed particularly poorly.

- X From 1965 to 1995, Nicaragua received over \$637 million in World Bank aid. Its per capita gross domestic product in 1965, measured in constant 1987 U.S. dollars, was \$1,752. Today it is only \$875, some 50 percent less than before Nicaragua received any aid.

14 "The World Bank Group: Learning from the Past, Embracing the Future," p. 5.

15 World Bank Annual Report editing staff, World Bank, 1996.

16 This calculation is based on comparing the per capita gross domestic products (GDPs) of World Bank recipients in their first year of receiving a loan or grant with their per capita GDPs in 1992. All figures are expressed in constant 1987 dollars. This figure includes countries whose economies grew less than one percent a year, expressed in per capita terms, for the period being measured. Moreover, this calculation does not include China, Cyprus, Iran, Jordan, Liberia, Syrian Arab Republic, and Uganda because sufficient GDP data do not exist. Finally, since this is a study of the economic performance of less developed countries, this figure omits the OECD countries.

Table 1

Economic Growth Rates of Recipients of World Bank Loans

	First Year Receiving Loans	Total World Bank Loans Through 6/30/95 Millions US\$	Total World Bank Loans per Capita Through 6/30/95	GDP per Capita, First Year Receiving Loans 1987 US\$	GDP per Capita, 1992 1987 US\$	Change in GDP per Capita, First Year-1992 1987 US\$	Change in GDP per Capita, First Year-1992
Algeria	1965	\$4,891.5	\$186	\$1843	\$2735	\$893	48%
Argentina	1965	10,166.8	307	2931	3583	652	22%
Benin	1969	610.1	121	362	331	-31	-9%
Bolivia	1965	1,342.1	178	665	681	16	2%
Botswana	1967	296.5	218	260	1822	1,562	601%
Brazil	1965	22,241.7	145	884	1869	985	111%
Burundi	1967	698.8	120	114	236	122	107%
Cameroon	1967	1,809.4	148	551	743	192	35%
Central African Rep.	1969	403.5	127	440	337	-103	-24%
Chad	1969	511.5	86	198	181	-17	-9%
Chile	1965	3,429.4	252	1237	2164	927	75%
Colombia	1965	8,129.1	243	690	1291	601	87%
Congo	1967	391.3	161	526	928	402	76%
Costa Rica	1965	894.4	280	1128	1765	637	56%
Ivory Coast	1968	3,713.5	288	927	763	-164	-18%
Dominican Republic	1970	616.9	84	494	734	240	49%
Ecuador	1965	2,261.8	205	624	1182	558	89%
El Salvador	1965	511.2	95	913	946	33	4%
Ethiopia	1965	2,111.4	39	116	94	-22	-19%
Gabon	1965	212.0	177	2798	3499	701	25%
Gambia	1970	160.2	162	241	279	38	16%
Ghana	1965	3,000.7	190	501	400	-101	-20%
Guatemala	1965	734.5	75	690	879	189	27%
Guinea	1966	995.2	163	452	421	-31	-7%
Guyana	1969	349.9	434	543	444	-99	-18%
Haiti	1965	545.6	81	356	282	-74	-21%
Honduras	1965	1,222.9	226	730	900	170	23%
India	1965	45,185.8	51	220	377	157	71%
Indonesia	1970	22,760.5	124	227	568	341	150%
Israel	1965	284.5	56	4654	9727	5,073	109%
Jamaica	1965	1,228.1	513	1356	1440	84	6%
Kenya	1965	3,467.6	135	221	366	145	66%
Lesotho	1967	334.2	180	134	272	138	103%

Notes: This table lists all countries receiving World Bank loans between 1965 and 1970. This time window was chosen for several reasons: 1. To exclude the European countries who used the loans for reconstruction. 2. To ensure that the developing countries received their loans after independence, and 3. To allow a large enough time frame for development loans to influence the countries' development. All OECD countries were excluded from this list. In addition, this table does not include the following loan recipients: China, Cyprus, Iran, Jordan, Liberia, Syria, and Uganda because reliable GDP data from 1965 to 1970 was unavailable. **Total World Bank loans** includes all loans distributed to the listed countries by the International Bank for Reconstruction and Development and the International Development Association since the Bank's founding. **Total World Bank Loans per Capita:** The per capita figures are understated. Total World Bank Loans were divided by the 1992 population of the recipient countries, while most of the countries received the bulk of their loans in the 1960s and 1970s when their populations were smaller.

Sources: *World Data 1994* on CD-ROM and *World Tables 1987, 1995*. The World Bank.

Table 1 (cont)

Economic Growth Rates of Recipients of World Bank Loans

	First Year Receiving Loans	Total World Bank Loans Through 6/30/95 Millions US\$	Total World Bank Loans per Capita Through 6/30/95	GDP per Capita, First Year Receiving Loans 1987 US\$	GDP per Capita, 1992 1987 US\$	Change in GDP per Capita, First Year-1992 1987 US\$	Change in GDP per Capita, First Year-1992
Madagascar	1967	\$1,270.8	\$103	\$333	\$217	-\$116	-35%
Malawi	1967	1,533.9	169	133	145	12	9%
Malaysia	1965	3,446.6	185	846	2600	1,754	207%
Mali	1968	979.9	109	202	246	44	22%
Mauritania	1965	539.0	259	516	476	-40	-8%
Morocco	1965	7,198.1	275	500	854	354	71%
Myanmar	1965	837.4	19	210	250	40	19%
Nepal	1970	1,394.1	70	143	178	35	25%
Nicaragua	1965	637.3	164	1752	875	-876	-50%
Niger	1965	589.3	72	605	280	-325	-54%
Nigeria	1965	7,151.1	70	351	360	9	3%
Pakistan	1965	10,289.8	86	183	375	192	105%
Panama	1965	901.3	358	1345	2231	886	66%
Papua New Guinea	1969	655.2	162	810	916	106	13%
Paraguay	1965	767.1	170	560	1000	439	78%
Peru	1965	3,884.1	174	1141	953	-188	-16%
Philippines	1965	9,363.1	146	464	594	131	28%
Rwanda	1970	694.4	95	299	300	1	0%
Senegal	1967	1,436.0	183	725	668	-57	-8%
Sierra Leone	1965	367.0	84	137	138	0	0%
Somalia	1965	492.1	59	124	114	-10	-8%
South Africa	1965	241.8	6	2079	2104	25	1%
Sri Lanka	1965	2,111.7	121	213	474	260	122%
Sudan	1965	1,518.9	57	806	695	-111	-14%
Swaziland	1965	112.6	131	486	845	360	74%
Tanzania	1965	3,022.2	116	137	178	41	30%
Thailand	1965	5,372.3	93	354	1396	1,042	294%
Togo	1969	592.3	152	414	321	-93	-23%
Trinidad and Tobago	1967	247.8	195	3157	3779	622	20%
Tunisia	1965	3,742.1	445	638	1435	797	125%
Uruguay	1965	1,247.2	398	1910	2635	724	38%
Venezuela	1965	3,132.7	155	3205	2894	-311	-10%
Zambia	1967	2,106.3	255	421	250	-171	-41%

Notes: See previous page.

Sources: World Data 1994 on CD-ROM and World Tables 1987, 1995, The World Bank.

- X The African country of Niger received over \$589 million in World Bank aid from 1965 to 1995. Yet its per capita GDP has shrunk by 54 percent, from \$605 in 1965 to \$280 today.

The evidence shows that the World Bank has a poor track record. One might expect that at least half of its recipients would be better off economically today than before they started receiving such aid, but this is not the case. Many are actually worse off. After nearly three decades, it seems clear that most long-term recipients of World Bank loans still are not achieving “sustainable development.”

WHY WORLD BANK PROGRAMS FAIL

The main reason for a lack of economic growth in these countries is a corresponding lack of economic freedom. A lack of economic freedom prevents countries from creating wealth and prosperity, and a recent worldwide survey of economic freedom finds that many World Bank recipients have economies that are mostly not free or repressed. *The 1996 Index of Economic Freedom*, published by The Heritage Foundation, analyzes the level of economic freedom in 142 countries.¹⁷ The study considers ten economic factors—trade, taxation, government consumption, monetary policy, banking, foreign investment, wage and price controls, private property rights, regulation, and black markets—and categorizes each country as having a “free,” “mostly free,” “mostly not free,” or “repressed” economy. The findings of the study demonstrate that a majority of World Bank loan and grant recipients do not have significant levels of economic freedom:

- X Of the 60 long-term recipients of World Bank aid that were graded in *The 1996 Index of Economic Freedom*, 37 have economies that are “mostly not free” or “repressed” (see Table 2).
- X Only 23 long-term recipients of World Bank aid have economies that are “mostly free,” and none have economies that are “free” (see Table 2).

Thus, most long-term recipients of World Bank loans and grants still do not have significant levels of economic freedom. Moreover, those recipients that have performed particularly poorly are the least economically free:

- X Of the 18 countries whose economies have shrunk since they have been World Bank recipients, 16 have either “mostly not free” or “repressed” economies (see Table 2).

Economic prosperity is not forthcoming in these countries because they do not have economic freedom. Rather, most have high taxes, barriers to trade, restrictions on foreign investment, banking systems in disarray, onerous government regulations, bad monetary policies, extensive wage and price controls, and large black markets. To be sure, 23 long-term recipients of World Bank aid do have mostly free economies, but most of these are in Latin America, an area which has benefited from several years of economic reform. Thus, their categorization as having mostly free economies is a recent phenomenon.¹⁸ It

¹⁷ Bryan T. Johnson and Thomas P. Sheehy, *The 1996 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation, 1996).

Table 2

How Long Term Recipients of World Bank Loans Rate on Economic Freedom

	1996 Index of Economic Freedom Score	Total World Bank Loans Millions US\$		1996 Index of Economic Freedom Score	Total World Bank Loans Millions US\$
Algeria	Mostly Not Free	\$4,891.5	Madagascar	Mostly Not Free	\$1,270.8
Argentina	Mostly Free	10,166.8	Malawi	Mostly Not Free	1,533.9
Benin	Mostly Free	610.1	Malaysia	Mostly Free	3,446.6
Bolivia	Mostly Free	1,342.1	Mali	Mostly Not Free	979.9
Botswana	Mostly Free	296.5	Mauritania	Mostly Not Free	539.0
Brazil	Mostly Not Free	22,241.7	Morocco	Mostly Free	7,198.1
Burundi	NR	698.8	Myanmar	Repressed	837.4
Cameroon	Mostly Not Free	1,809.4	Nepal	Mostly Not Free	1,394.1
Central Afr. Rep.	NR	403.5	Nicaragua	Mostly Not Free	637.3
Chad	NR	511.5	Niger	Mostly Not Free	589.3
Chile	Mostly Free	3,429.4	Nigeria	Mostly Not Free	7,151.1
Colombia	Mostly Not Free	8,129.1	Pakistan	Mostly Not Free	10,289.8
Congo	Mostly Not Free	391.3	Panama	Mostly Free	901.3
Costa Rica	Mostly Free	894.4	Papua N. G.	Mostly Not Free	655.2
Ivory Coast	Mostly Not Free	3,713.5	Paraguay	Mostly Free	767.1
Dominican Rep.	Mostly Not Free	616.9	Peru	Mostly Not Free	3,884.1
Ecuador	Mostly Not Free	2,261.8	Philippines	Mostly Free	9,363.1
El Salvador	Mostly Free	511.2	Rwanda	NR	694.4
Ethiopia	Mostly Not Free	2,111.4	Senegal	Mostly Not Free	1,436.0
Gabon	Mostly Not Free	212.0	Sierra Leone	Mostly Not Free	367.0
Gambia	NR	160.2	Somalia	Repressed	492.1
Ghana	Mostly Not Free	3,000.7	South Africa	Mostly Not Free	241.8
Guatemala	Mostly Free	734.5	Sri Lanka	Mostly Free	2,111.7
Guinea	Mostly Not Free	995.2	Sudan	Repressed	1,518.9
Guyana	Mostly Not Free	349.9	Swaziland	Mostly Free	112.6
Haiti	Repressed	545.6	Tanzania	Mostly Not Free	3,022.2
Honduras	Mostly Not Free	1,222.9	Thailand	Mostly Free	5,372.3
India	Mostly Not Free	45,185.8	Togo	NR	592.3
Indonesia	Mostly Free	22,760.5	Trinidad and Tob.	Mostly Free	247.8
Israel	Mostly Free	284.5	Tunisia	Mostly Free	3,742.1
Jamaica	Mostly Free	1,228.1	Uruguay	Mostly Free	1,247.2
Kenya	Mostly Not Free	3,467.6	Venezuela	Mostly Not Free	3,132.7
Lesotho	Mostly Not Free	334.2	Zambia	Mostly Free	2,106.3

Note: Figures are for loans received through 6/30/95.

Source: 1996 Index of Economic Freedom, The Heritage Foundation.

is good that they are making progress, but given the evidence elsewhere in the world, it would be difficult to attribute this progress to help from the World Bank.

HONG KONG AND SINGAPORE: MODELS OF GROWTH WITHOUT WORLD BANK AID

The poor record of the World Bank in delivering on its promise of economic development can be demonstrated not only by listing its many failures, but also by examining some development successes that occurred without the Bank's help. Hong Kong and Singapore are

the most successful of the so-called Asian Tigers, running up phenomenal economic growth rates that are the envy of the developed world. They did this largely without loans from the World Bank. Even though they were as poor 30 years ago as other countries that took World Bank aid, they eschewed World Bank loans and embarked instead on successful programs of economic liberalization. The evidence shows that there is a direct correlation between the economic freedom these countries enjoy and their tremendous economic growth over the past 30 years. Of one thing there can be absolutely no doubt: World Bank assistance was in no way responsible for creating the best development success stories the world has seen during this 30-year period.

Table 3

Economic Growth and Government Spending		
	Growth in Government Consumption: 1970-80	Annual GDP Growth Rates: 1970-80
Asian Tigers		
Hong Kong	8.3%	9.2%
Singapore	6.2	8.3
South Korea	7.4	10.1
Taiwan	NA ¹	NA ¹
Less Developed Countries²		
Lesotho	17.8	8.6
Dominican Rep.	14.5	6.5
Morocco	14.0	5.6
Indonesia	13.1	7.2
Zimbabwe	12.1	1.6
Algeria	11.5	4.6
Mauritania	11.4	1.3
Nigeria	11.4	4.6
Nicaragua	10.7	1.2
Togo	10.2	4.0
Thailand	9.8	4.0
Ivory Coast	9.6	6.8
Kenya	9.2	6.4
The Gambia	8.5	4.5
Less Developed Countries³		
Malawi	7.9	5.8
Indonesia	7.2	13.2
Thailand	7.1	9.8
Cameroon	5.2	8.0
Paraguay	4.8	8.5

Notes: 1 Reliable figures for these dates are not available.
 2 This list includes the low income and low-middle income countries (as defined by the World Bank) with the highest rate of growth in government consumption.
 3 This list includes the low income and low-middle income countries (as defined by the World Bank) with government consumption growth rates comparable to the Asian Tigers.

Source: *World Development Report 1995*, The World Bank, Tables 2 and 8, pp. 164-65, and pp. 176-77.

Hong Kong

In the 1960s, the U.S. foreign aid community and international lending institutions like the World Bank decided that the East Asian region was barren of economic promise and that they should focus their aid on Africa instead. Hong Kong received no aid from the World Bank and only a small amount in U.S. foreign aid—\$43 million, most of which was cut off after 1965. The World Bank admitted that many economists misjudged the economic prospect in Asia. In the commemorative volume marking the Bank's 50th anniversary, the authors state: "In the 1960s, many economists were more optimistic about sub-Saharan Africa than East Asia. Yet, East Asia proved to be the 'miracle' of the developing world—and sub-Saharan Africa its most daunting challenge."¹⁹

While eschewing foreign aid after 1965, Hong Kong at the same time began a massive economic liberalization program. This included reforms in many sectors, including banking and financial services, government regulation of business, and foreign investment laws. Among the most important of these reforms was lowering barriers to international trade and making Hong Kong's trade laws consistent with international standards. The government eliminated virtually all tariffs, duties, licensing requirements, and other import barriers. It also set up export processing zones, or "free trade areas," that allowed manufacturers to cut through red tape to sell their products overseas.²⁰ These reforms enabled Hong Kong to create a large export industry which provided much of the fuel for Hong Kong's economic growth.

Another critically important reform took place when Hong Kong established a tax structure that allows individuals and businesses to keep most of the wealth they create. For example, Hong Kong has a flat tax of 20 percent on incomes over \$155,000. The worker making the average income of about \$22,500 is taxed only 2 percent. Hong Kong's corporate tax rate is a flat 16.5 percent, compared to 35 percent in the U.S.²¹ These and other economic reforms helped turn Hong Kong into the economic powerhouse it is today.

After these economic reforms were in place, Hong Kong's economy indeed took off. GDP increased 9.2 percent a year from 1970 to 1980. From 1980 to 1993, it increased an additional 6.5 percent.²² Overall, over the past 35 years, Hong Kong's per capita GDP has grown an astonishing 530 percent, with most of this growth occurring since the beginning of economic liberalization.²³

Singapore

Singapore also exhibited little economic promise in the early 1960s, according to the economic forecasts of the day. In fact, it was often referred to as "Asia's Cuba."²⁴ The World Bank gave most of its loans to Singapore—some \$93 million—before 1970. Singapore received its last World Bank loan in 1975.

19 Broughton and Lateef, *Fifty Years After Bretton Woods*, p. 28.

20 See David L. Lindaur and Michael Roemer, *Asia and Africa*, International Center for Economic Growth and Harvard Institute for International Development (San Francisco: ICS Press, 1994), pp. 305-321.

21 Price Waterhouse, *Individual Taxes: A Worldwide Summary*, 1995, and *Corporate Taxes: A Worldwide Summary*, 1995.

22 *World Bank World Development Report*, various years, 1986-1995.

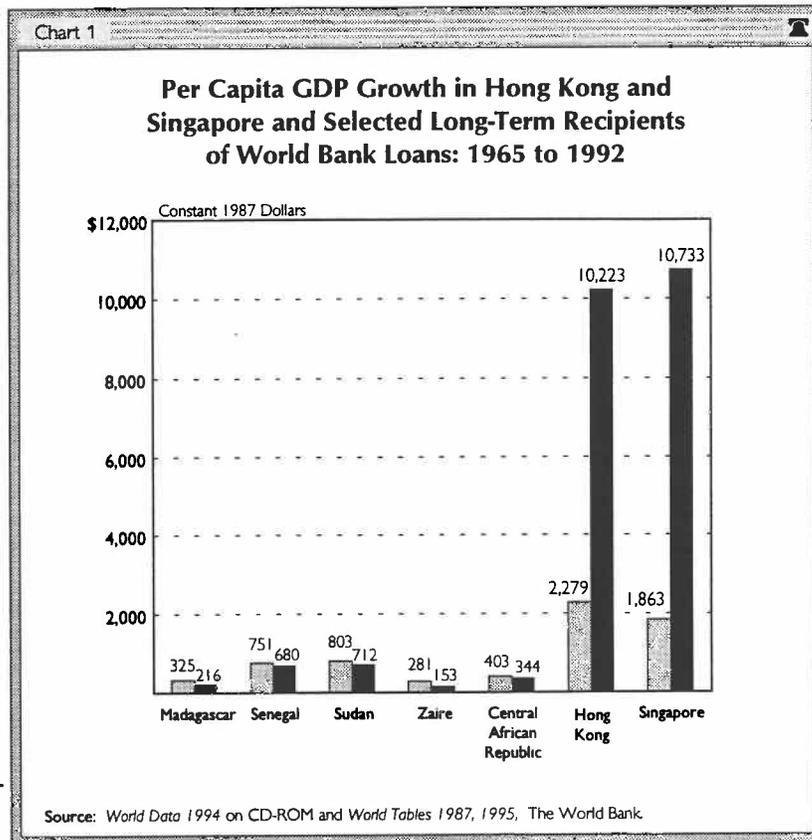
23 Rt. Hon. Christopher Patten, "Speaking for Hong Kong," *Heritage Lecture* No. 563, May 7, 1996.

As World Bank loans were drying up, Singapore, like Hong Kong, embarked on a course of economic liberalization—with the same stunning results. Starting in the late 1960s and continuing into the 1970s, Singapore instituted a series of economic reforms aimed at achieving two major goals. The first was to promote increased foreign investment and higher levels of exports. To this end, Singapore opened its market to foreign investors. By 1970, some 80 to 90 percent of all manufactured exports were derived from foreign investment.²⁵ Why did foreign investment pour into Singapore?

There are many reasons. One surely was that Singapore's legal system, based in British common law, provided rule of law, an efficient legal system, and a way for investors to achieve protection of their investments through contracts.

Equally important was the fact that Singapore established a foreign investment code, free of local content or production restrictions, that guaranteed equal treatment under the law for both domestic and foreign firms.

The second goal was to reform Singapore's tax system. Singapore adopted a tax system that reduced the burden on most of the people. For example, while the top tax rate is 30 percent, the tax on the average income level of \$21,000 is little or none. In fact, the average Singapore worker must make almost \$30,000 before paying taxes. For that first tax bracket, the rate is 19 percent.²⁶ In addition, Singapore resisted the implementation of onerous business regulations; abolished trade restrictions on imports (the average tariff rate now is about 0.4 percent, compared to 3.3 percent in the U.S.); and has kept inflation below 3 percent a year since the mid-1970s.



24 Seiji Naya and Robert McCleery, "Relevance of Asian Development Experiences to African Problems," *Occasional Papers Number 39*, International Center for Economic Growth (San Francisco: ICS Press, August 1994).

25 Lindauer and Roemer, *Asia and Africa*, p. 349.

26 Price Waterhouse, *Individual Taxes: A Worldwide Summary and Corporate Taxes: A Worldwide Summary*.

These economic reforms helped increase Singapore's gross domestic product. From 1970 to 1980, GDP increased by 8.3 percent a year. From 1980 to 1993, it increased an additional 6.9 percent. Overall, Singapore's gross national product has increased by over 6 percent a year since 1965.²⁷

Hong Kong and Singapore have achieved the highest levels of economic prosperity to be found anywhere among the world's recently developed countries. In fact, they have achieved phenomenal economic growth rates that are the envy of the developed world. The evidence suggests that their policies of economic freedom are the principal reason for this success. There is a direct correlation between the economic freedom these countries have achieved and their tremendous economic growth over the past 30 years.²⁸ There is also a direct correlation between this growth and a lack of aid from the World Bank. World Bank assistance was in no way responsible for creating the best development success stories the world has seen over the past 30 years (see Chart 1):

PHASING OUT SUPPORT FOR THE WORLD BANK

The facts show that the World Bank's approach to economic development is a failure. The facts also show that countries which adopt free market economic reforms can develop without aid from the World Bank or any other institution. Promises by the World Bank to reform have made little difference. The U.S. therefore should begin withdrawing its financial support. Specifically, Congress should:

- ✓ **Phase out financial support for the World Bank.** Ideally, the U.S. Congress would refuse immediately to appropriate any more money to the World Bank. But with current political realities, this approach seems unlikely. Therefore, the most workable approach would be for Congress to phase out U.S. funding over seven years. In the event the Clinton Administration refuses to sign onto a seven-year balanced budget, Congress then should seek to withdraw funding through the appropriations process.
- ✓ **Seek a General Accounting Office audit of World Bank lending practices.** The General Accounting Office (GAO) long has performed intensive analyses of such programs as foreign aid. Many of these audits have concluded that much of the U.S. foreign aid program is fraught with waste, fraud, and abuse; in some cases, these audits have discovered that programs simply do not work. The last GAO report dealing specifically with the World Bank, published in 1994, found that most of the Bank's reforms have failed to make it more efficient and effective.²⁹ Congress should call on the GAO to launch a new study of the effectiveness of World Bank lending, to focus on:

27 Naya and McCleery, "Relevance of Asian Development Experiences to African Problems," p. 3.

28 See Bryan T. Johnson and Edward L. Hudgins, "Why Asia Grows and Africa Doesn't," Heritage Foundation *Background* No. 756, March 20, 1990.

29 U.S. Accounting Office, "Multilateral Development: Status of World Bank Reforms," NSIA-94-190BR, June 6, 1994

- 1) The economic performance of recipients of World Bank aid;
 - 2) The effectiveness and efficiency of World Bank programs in meeting their stated goals;
 - 3) The influence the World Bank has on encouraging recipient countries to adopt specific economic policies; and
 - 4) Conducting an audit of the World Bank's financial records.
- ✓ **Make remaining funding contingent on public access to World Bank records and information.** It is difficult to obtain detailed information on the recipients of World Bank loans, the conditions imposed on loan recipients, and the number and amount of loans in default. While the World Bank is an international organization, it is partly funded by the American taxpayer, who has a right to know how the money is being spent. The American public and Congress should have access to all of the Bank's financial records and information. As long as Congress continues to appropriate money for the World Bank, it should make that funding contingent on free and open access to World Bank information.
 - ✓ **Require that the Administration provide Congress with a report on the level of economic freedom in World Bank recipient countries.** While the World Bank continues to lend money to countries with little chance of growing economically, there is no accounting of the economic conditions in many of these countries. Congress should require the U.S. Representative to the World Bank, Jan Piercy, to provide Congress with a report detailing the economic conditions that exist in countries that receive World Bank funding. Specifically, the report should include information on the level of economic freedom that exists in the following areas: trade, taxation, government consumption, monetary policy, banking, foreign investment, regulation, wage and price controls, and property rights.

CONCLUSION

Since 1944, the World Bank has spent \$346 billion trying to advance economic development around the world, and not all of this money has been repaid. While it played an important role in getting Europe on its feet after World War II, the World Bank has drifted away from its original mission to become little more than a clearinghouse for international welfare. Most recipients of loans and grants are no better off today than when they first received them. In fact, many are worse off.

Clearly, the World Bank's approach to economic development is a failure. But while recipients of World Bank loans continue to wallow in poverty, countries like Hong Kong and Singapore continue to experience unprecedented growth.

While there is overwhelming evidence to show the futility of such aid, the U.S. continues to support this failed institution, providing over \$50 billion to the Bank in 1995, including both monetary allocations and commitments. American policymakers should admit this failure and begin phasing out U.S. financial support for the World Bank over

seven years. Not only will billions in U.S. taxpayer dollars be saved, but countries in the less developed world may be able finally to break the economic chains that have kept them impoverished.

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30 Research Assistant Brett Schaefer contributed valuable research for this paper.



All Recipients of World Bank Lending

	Number of IBRD Loans	Amount of IBRD Loans Millions US\$	Number of IDA Loans	Amount of IDA Loans Millions US\$	Total Number World Bank Loans	Total Amount World Bank Loans Millions US\$
Albania	0	\$0	17	\$200.0	17	\$200.00
Algeria	57	4,891.5	0	0	57	4,891.50
Argentina	63	10,166.8	0	0	63	10,166.80
Armenia	1	12.0	4	144.7	5	156.70
Australia	7	417.7	0	0	7	417.70
Austria	9	106.4	0	0	9	106.40
Azerbaijan	0	0	2	81.8	2	81.80
Bahamas, The	5	42.8	0	0	5	42.80
Bangladesh	1	46.1	143	6,913.7	144	6,959.80
Barbados	11	103.2	0	0	11	103.20
Belarus	3	170.2	0	0	3	170.20
Belgium	4	76.0	0	0	4	76.00
Belize	7	64.8	0	0	7	64.80
Benin	0	0	43	610.1	43	610.10
Bhutan	0	0	6	28.2	6	28.20
Bolivia	14	299.3	44	1,042.8	58	1,342.10
Botswana	20	280.7	6	15.8	26	296.50
Brazil	210	22,241.7	0	0	210	22,241.70
Bulgaria	8	718.0	0	0	8	718.00
Burkina Faso	0	1.9	45	793.3	45	795.20
Burundi	1	4.8	46	694.0	47	698.80
Cameroon	44	1,294.4	19	515.0	63	1,809.40
Cape Verde	0	0	8	56.4	8	56.40
Central African Republic	0	0	24	403.5	24	403.50
Chad	0	0	31	511.5	31	511.50
Chile	56	3,410.4	0	19.0	56	3,429.40
China	95	14,128.9	62	8,425.7	157	22,554.60
Colombia	139	8,109.6	0	19.5	139	8,129.10
Comoros	0	0	12	73.2	12	73.20
Congo	10	216.7	9	174.6	19	391.30
Costa Rica	38	888.9	0	5.5	38	894.40
Cote d'Ivoire	62	2,887.9	11	825.6	73	3,713.50
Cyprus	30	418.8	0	0	30	418.80
Denmark	3	85.0	0	0	3	85.00
Djibouti	0	0	8	51.6	8	51.60
Dominica	0	0	3	11.0	3	11.00
Dominican Republic	22	594.9	3	22.0	25	616.90
Ecuador	58	2,224.9	5	36.9	63	2,261.80
Egypt	57	3,982.5	31	1,429.8	88	5,412.30
El Salvador	25	485.6	2	25.6	27	511.20
Estonia	6	110.4	0	0	6	110.40
Ethiopia	12	108.6	54	2,002.8	66	2,111.40
Fiji	13	152.9	0	0	13	152.90
Finland	18	316.8	0	0	18	316.80
France	1	250.0	0	0	1	250.00
Gabon	12	212.0	0	0	12	212.00
Gambia, The	0	0	23	160.2	23	160.20
Georgia	0	0	3	103.1	3	103.10
Ghana	9	207.0	79	2,793.7	88	3,000.70

Note: Figures are through June 30, 1995. Some IDA funds were distributed along with IBRD loans without official contracts with the IDA.
Source: The World Bank.



All Recipients of World Bank Lending

	Number of IBRD Loans	Amount of IBRD Loans Millions US\$	Number of IDA Loans	Amount of IDA Loans Millions US\$	Total Number World Bank Loans	Total Amount World Bank Loans Millions US\$
Greece	17	\$490.8	0	\$0	17	\$490.80
Grenada	0	0	1	5.0	1	5.00
Guatemala	24	734.5	0	0	24	734.50
Guinea	3	75.2	43	920.0	46	995.20
Guinea-Bissau	0	0	19	208.9	19	208.90
Guyana	12	80.0	14	269.9	26	349.90
Haiti	1	2.6	33	543.0	34	545.60
Honduras	33	717.3	15	505.6	48	1,222.90
Hungary	33	3,672.9	0	0	33	3,672.90
Iceland	10	47.1	0	0	10	47.10
India	156	22,957.0	208	22,228.8	364	45,185.80
Indonesia	199	21,828.7	46	931.8	245	22,760.50
Iran	39	2,058.1	0	0	39	2,058.10
Ireland	8	152.5	0	0	8	152.50
Israel	11	284.5	0	0	11	284.50
Italy	8	399.6	0	0	8	399.60
Jamaica	58	1,228.1	0	0	58	1,228.10
Japan	31	862.9	0	0	31	862.90
Jordan	40	1,345.0	15	85.3	55	1,430.30
Kazakhstan	7	556.8	0	0	7	556.80
Kenya	46	1,200.0	64	2,267.6	110	3,467.60
Korea, Republic of	110	8,599.0	6	110.8	116	8,709.80
Kyrgyzstan	0	0	6	215.0	6	215.00
Laos	0	0	21	402.8	21	402.80
Latvia	5	123.0	0	0	5	123.00
Lesotho	1	110.0	23	224.2	24	334.20
Liberia	21	156.0	14	114.5	35	270.50
Lithuania	4	118.4	0	0	4	118.40
Luxembourg	1	12.0	0	0	1	12.00
Madagascar	5	32.9	61	1,237.9	66	1,270.80
Malawi	9	124.1	57	1,409.8	66	1,533.90
Malaysia	83	3,446.6	0	0	83	3,446.60
Maldives	0	0	6	47.3	6	47.30
Mali	0	1.9	51	978.0	51	979.90
Malta	1	7.5	0	0	1	7.50
Mauritania	3	146.0	34	393.0	37	539.00
Mauritius	29	400.7	4	20.2	33	420.90
Mexico	152	25,806.0	0	0	152	25,806.00
Moldova	4	176.0	0	0	4	176.00
Mongolia	0	0	4	85.0	4	85.00
Morocco	105	7,147.3	3	50.8	108	7,198.10
Mozambique	0	0	27	1,401.3	27	1,401.30
Myanmar	3	33.4	30	804.0	33	837.40
Nepal	0	0	64	1,394.1	64	1,394.10
Netherlands	8	244.0	0	0	8	244.00
New Zealand	6	126.8	0	0	6	126.80
Nicaragua	27	233.6	11	403.7	38	637.30
Niger	0	0	38	589.3	38	589.30
Nigeria	84	6,248.2	14	902.9	98	7,151.10

Note: Figures are through June 30, 1995. Some IDA funds were distributed along with IBRD loans without official contracts with the IDA.
Source: The World Bank

All Recipients of World Bank Lending

	Number of IBRD Loans	Amount of IBRD Loans Millions US\$	Number of IDA Loans	Amount of IDA Loans Millions US\$	Total Number World Bank Loans	Total Amount World Bank Loans Millions US\$
Norway	6	\$145.0	0	\$0	6	\$145.00
Oman	11	157.1	0	0	11	157.10
Pakistan	80	5,629.2	98	4,660.6	178	10,289.80
Panama	34	901.3	0	0	34	901.30
Papua New Guinea	27	542.0	9	113.2	36	655.20
Paraguay	33	721.6	6	45.5	39	767.10
Peru	72	3,884.1	0	0	72	3,884.10
Phillipines	134	9,068.9	5	294.2	139	9,363.10
Poland	21	3,872.0	0	0	21	3,872.00
Portugal	32	1,338.8	0	0	32	1,338.80
Romania	42	3,590.3	0	0	42	3,590.30
Russia	19	4,631.3	0	0	19	4,631.30
Rwanda	0	0	45	694.4	45	694.40
St. Kitts and Nevis	1	1.5	0	1.5	1	3.00
St. Lucia	2	5.9	0	8.5	2	14.40
St. Vincent and the Gren.	1	1.4	1	6.4	2	7.80
Sao Tome and Principe	0	0	8	58.9	8	58.90
Senegal	19	164.9	59	1,271.1	78	1,436.00
Seychelles	2	10.7	0	0	2	10.70
Sierra Leone	4	18.7	19	348.3	23	367.00
Singapore	14	181.3	0	0	14	181.30
Slovak Republic	2	135.0	0	0	2	135.00
Solomon Islands	0	0	6	33.9	6	33.90
Somalia	0	0	39	492.1	39	492.10
South Africa	11	241.8	0	0	11	241.80
Spain	12	478.7	0	0	12	478.70
Sri Lanka	12	210.7	62	1,901.0	74	2,111.70
Sudan	8	166.0	48	1,352.9	56	1,518.90
Swaziland	12	104.8	2	7.8	14	112.60
Syria	17	613.2	3	47.3	20	660.50
Taiwan	14	329.4	4	15.3	18	344.70
Tanzania	18	318.2	82	2,704.0	100	3,022.20
Thailand	105	5,247.2	6	125.1	111	5,372.30
Togo	1	20.0	36	572.3	37	592.30
Trinidad and Tobago	19	247.8	0	0	19	247.80
Tunisia	97	3,667.5	5	74.6	102	3,742.10
Turkey	114	12,307.9	10	178.5	124	12,486.40
Turkmenistan	1	25.0	0	0	1	25.00
Uganda	1	8.4	56	2,198.9	57	2,207.30
Ukraine	4	673.0	0	0	4	673.00
Uruguay	39	1,247.2	0	0	39	1,247.20
Uzbekistan	3	247.0	0	0	3	247.00
Vanuatu	0	0	4	15.4	4	15.40
Venezuela	32	3,132.7	0	0	32	3,132.70
Viet Nam	0	0	7	799.5	7	799.50
Zaire	7	330.0	59	1,151.5	66	1,481.50
Zambia	28	679.1	35	1,427.2	63	2,106.30
Zimbabwe	24	983.2	6	443.4	30	1,426.60
Totals	3,663	\$257,997	2,395	\$87,984	6,058	\$345,981

Note: Figures are through June 30, 1995. Some IDA funds were distributed along with IBRD loans without official contracts with the IDA.
Source: The World Bank.

