

# Democratizing the World Bank

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**An Interview with Kenta Tsuda**  
29 November 2007

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**Brown Journal of World Affairs:** What was your opinion about the Paul Wolfowitz appointment to the World Bank presidency? Has your opinion changed since your initial reaction?

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**Joseph Stiglitz:** My major concern was always the procedure for appointing the president. These are supposed to be international economic institutions—international *public* institutions—and particularly since the issue of governance is so high on the agenda, for them to exhibit such a democratic deficit—where they don't ask who's the most qualified person regardless of nationality, race, religion, or gender—is really a very big mistake. Instead they *accept* who the president of the United States thinks should be the Bank's president. The way the president is chosen undermines the ability of the Bank to achieve the objectives of the institution and particularly its legitimacy in dealing with issues of governance, on which it has placed such emphasis in recent years.

**Journal:** In your book *Making Globalization Work*, it seems like your main opposition to Wolfowitz is that his appointment symbolizes U.S. hegemony.

**Stiglitz:** It's not only that; the appointment also symbolizes the democratic deficit which critics of the Bank point to as one of its major failings.

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*Journal:* Why is that symbolism so important?

**Stiglitz:** One of the issues in the global debate over this important global institution is, to what extent the Bank is a multilateral institution and to what extent it is a handmaiden of the United States. To the extent that it's viewed by the rest of the world as a handmaiden of the United States, its effectiveness is undermined. The way that the president is chosen naturally raises worries that the Bank will act as the United States' handmaiden. These concerns could be obviated, at least to some extent, if the United States were to appoint the president in a spirit of collaboration, after extensive consultations with other countries. In the case of the appointment of the current president, the discussions that did occur were held behind closed doors; given the unpopularity of the war in Iraq, there was extensive opposition to his appointment. Even the idea caused dismay; many in the rest of world were incredulous that the G-8 went along. To those in the developing world, it seemed another example of the rich "old boys club" imposing their will. The hypocrisy between the good governance which these countries preached and the bad governance which they practiced was disturbing. Even then, however, all might have been forgiven if, after Wolfowitz's election, the Bank had been run in a collaborative way. Previous presidents had gone out of their way to make sure that their immediate advisors represented a diversity of countries, with a diversity of viewpoints. Wolfowitz, on the other hand, has been accused by those in the Bank of surrounding himself with Americans possessing little or no development experience, drawn from the same narrow conservative Republican pool with which Wolfowitz was associated. Unhappiness in the Bank's professional staff, one of the institution's real assets, grew to the point that there was a large exodus of senior people. Confidence in Wolfowitz's presidency was so low that the Bank's board even took a critical stance on his corruption program—in spite of their broad commitment in this area. There is considerable debate in many European countries about whether they should cut back their financial support to the World Bank because of their lack of confidence.

*Journal:* How would you see that process becoming more democratic? You could say that Wolfowitz's past doesn't speak very well to transparency, but he is a big advocate of spreading democracy.

**Stiglitz:** Being an advocate of democracy requires the practice of democracy. Part of democracy, in my mind at least, is compliance with the international rule of law, and the invasion of Iraq by the United States was against international law—a position that even the attorney general of the United Kingdom has taken.

**Journal:** Do you have any suggestions about how the institution could democratize the process of choosing its president?

**Stiglitz:** It would be easy to reform the process. The Bank should begin by specifying the qualities it wants, and follow that with a global search for the most qualified person. There are a large number of highly qualified people, and among them are several from developing countries. Such individuals obviously have an advantage in understanding problems with development, having lived there all their lives. I could quickly name several first-rate economists from countries like Brazil and Turkey: people who have been in their governments, who understand democratic political processes, and who have strong commitments to democracy. It is important, of course, to have an open and transparent process, a clear indication of criteria, and a wider participation in the selection process. But I can't think of a worse situation than where there is an old boy's agreement that whoever the U.S. president picks will be appointed. At this point, our concern should not be with finding a perfect selection process, but a *better* selection process. This should be easy, because there is just so much room for improvement.

**Journal:** Now that Wolfowitz is president, what are your views on the anticorruption efforts that are being initiated under the new presidency? They would improve the effectiveness of loans and in some cases, at least according to some of Wolfowitz's speeches, mitigate inefficient, even harmful uses of World Bank funds.

**Stiglitz:** I have not been able to study whether in fact there have been improvements in management of the quality of the loans. What really matters is development effectiveness, and it's very difficult to check that in a one-year horizon. The general consensus is that corruption is an important issue, one which Jim Wolfensohn and I put on the agenda.

What are the most effective ways of fighting corruption? I believe you have to have a comprehensive approach to fighting corruption. It's important for the World Bank to take a strong stance against the secret bank accounts used by dictators to hide their money. The Bush administration vetoed the OECD [Organisation for Economic Co-operation and Development] initiative to reduce bank secrecy. I think it's important to push the Extractive Industries Transparency Initiative, which seeks greater transparency both in the transfer of funds from oil and mining companies to governments and in how governments use those funds as central to the fight against corruption. There is, in fact, a broad agenda for fighting corruption, which I spell out in my book *Making Globalization Work*. Procurement practices are another example of an area in which reforms are essential for fighting corruption. The Bank's own competitive procurement

policies and practices, though almost surely not perfect, are exemplary. Regrettably, the U.S. Defense Department has not been setting a good example: the single-source contracting that the United States is implementing in the context of Iraq is in fact an example of the kind of bad procurement policy that the Bank and its president should be criticizing.

Four further points: First, when you see corruption, what do you do? Do you cut the country's aid, or are there ways of delivering aid that are immune or at least resistant to corruption—for instance, giving money to good NGOs? Bangladesh is an example of a country where there are very effective NGOs despite a corrupt government. The goal should be to find ways of delivering the aid to countries with already corrupt and often dictatorial governments.

Second, there is a lot of worry that the anticorruption agenda won't be uniformly applied. The World Bank is discussing going into Iraq, a country rife with corruption. There's worry among many countries that the Bank will say Iraq is an exception. The worry is that there is corruption in the corruption agenda; and that corruption will be used as an excuse for cutting off aid for countries that the United States wants to punish, while corruption in countries that the U.S. wishes to reward will be overlooked.

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Third, corruption takes many forms. Campaign contribution corruption is just as eviscerating as overt corruption. Campaign contributions can be used to "buy" legislation that, for instance, puts no restrictions on drug prices or that restricts accessibility to generic medicines, and it can have very adverse effects on both the government's budget and on developing countries.

Fourth, there must be "due process." It is not uncommon for parties to fling accusations of corruption against their rivals. Often those accusations have some validity; sometimes, however, they do not. In democratic societies, one is innocent until proven guilty. The Bank has flung accusations of corruption against a number of countries, but there are accusations that the Bank has not respected due process before cutting off loans. In at least one case, when the country asked for evidence—so that it could prosecute the offenders and set up safeguards to ensure that such abuses do not occur in the future—the Bank was slow to produce the evidence, and further questions were raised about whether the evidence would stand up in a court of law. Such accusations against the Bank need to be taken very seriously, and I hope the Bank's board looks carefully into them. (Again, recent history colors some of this debate. The United States has not followed due process in Iraq, for example, with respect to what it calls enemy combatants; its position on torture is almost surely in contravention of the Convention on Torture.)

Corruption also needs to be seen within a broad economic agenda and within the context of development effectiveness. One can be non-corrupt but not effective.

**Journal:** So the intention is right, but the approach and the practical application are wrong?

**Stiglitz:** I think the fight against corruption needs to be set within a broader, more comprehensive development agenda, and it has to be taken on much more comprehensively. Corruption is a very difficult problem, and it affects all countries.

**Journal:** Another argument that you have made in the past is that the system of loans is untenable because, as the debt accumulates, there is no way that these countries can pay the money back.

**Stiglitz:** That's right. Some of the loans are for projects like electricity that are income-generating, giving rise to revenues that enable the loans to be repaid; but many of them are not.

**Journal:** If the corruption campaign were to reduce the inefficiencies in fund allocations such that the only people who get loans use them correctly for growth, would be campaign be a possible way to solve the problem of loan tenability?

**Stiglitz:** If the country grows more, it is in a better position to pay back the loans, but it still may be very difficult. Remember, the government has to impose taxes, so the economy could be growing, but it still may be difficult for the government to appropriate the returns of the investments in, say, education or health. So that's why I made the distinction. If the government is investing in education, it's going to be 25 years before those young people are productive members of the labor force. There can be high long-run returns, but even long-term World Bank loans have to be paid back within 18 years.

**Journal:** Do you think that the World Bank should generally consider moving from loans to grants?

**Stiglitz:** I think the Bank should make more use of grants than it has in the past. I do think it's important that they move to grants and that there be additional funding, so that the flow of funds can be sustained.

**Journal:** How else would you recommend reforming international financial institutions?

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**Stiglitz:** There are reforms in the governance, such as voting rights or more transparency; reforms can also be in basic procedures that reduce the scope for conflicts of interest (for example, reforms that would reduce the scope for “revolving door” employment, where individuals move, for instance, between the IMF and the international private banks that its lending programs may have bailed out—policies in the Bank and the Fund are not, I think, up to the best practices followed in democracies). And then there could be reform in their operations, making forecasts of, for instance, the impact of programs not only on inflation but also on unemployment, and then holding the Bank or the IMF accountable when their forecasts turn out wrong, and finding out what went wrong.

There have to be improvements in accountability. When the International Monetary Fund says, “This policy is going to work,” they should give a forecast of the magnitude of unemployment, and if they are wrong, they should be asked why their forecasts and consequences were wrong.

And finally, in the case of the IMF, there needs to be more focus on their core mission. Just last September, they began focusing on the problems of global imbalances, but these problems of global imbalances are what they should have been focusing on for a very long time. I think there’s a broad consensus on this. Rather than focusing on development and other things beyond their expertise, they should be focusing on global financial stability. In fact, not only have they failed to address the underlying problems of global financial instability; they have probably contributed to global financial instability.

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**Journal:** You often express the importance of political context for the Bank, such as with democratic policies. But then you also criticize conditionality-laden loans. Is there a problem in doing that? Wouldn’t conditionality be necessary to create the political context in which these institutions could work?

**Stiglitz:** There are several related issues. One is the nature of the conditionality. If you’re lending money, you want to make sure the money is well-spent. So if you give money towards a project in a factory, you want to make sure it doesn’t go into a vacation. So yes, you need to have some conditionality, but the real question is in its nature: Is it political? Do the economic conditions make sense? Are they related to the loan? Is there evidence that the conditions will make the loan more effective? The evidence exists to the contrary—that the conditions have not typically been related to increasing the effectiveness of the lending. In some cases, when the IMF has imposed over a hundred conditions, they actually impede development effectiveness.

**Journal:** In a recent book chapter on ethics and globalization, you argued that economic advice should be informed by ethical standards. Do you think that an ethical approach should be institutionalized, or should it be cultivated outside and brought into the institutions by the individuals who work there?

**Stiglitz:** The foundations of any ethical stance are going to lie with individuals within the organization, so an understanding of ethical principles has to be more widely inculcated. The real question is: are there ways that the institutions can help facilitate behavior, which one might say are in accord with ethical principles? And the answer is yes. Some companies and international institutions have tried to talk about ethics, corporate social responsibility, or ethical globalization and to incorporate ethical values in corporate practices. I think it is fairly clear that there are ways in which these practices can be facilitated.

We can help individuals (and organizations) think about issues like conflicts of interest, the impact of actions on others, and honesty. People may give various interpretations and weights to various ethical principals, but increasing awareness of these is important for institutions both in the public and private sector. In my book *Roaring Nineties*, I suggest that many of the United States' CEOs were guilty of unethical behavior during the heyday of the "roaring nineties." In the end, after having been exposed to discussions of ethical principles, maybe the CEOs who were stealing from the corporations for whom they were working might have said, "Well, it's justified because I've done so much for the corporation." But had there been more ethical discussions, maybe some of them would have thought twice about what they were doing.

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**Journal:** Seeing as the 2002 fast-track legislation will probably run out in a half-year or so, what does the failure of the Doha Round mean for development and international trade in general?

**Stiglitz:** First, you have to recognize that, by December 2005, ambitions had been so curtailed that even if there had been a "successful completion" to the Doha Round, it would have not been a true development round. It would not have had much impact on most developing countries: it would have been a charade. One of the dangers was that, because it was called the development round, there would be a widespread perception that development had been dealt with; and having dealt with development, trade negotiators could carry on, as they had before Doha (the previous trade round was so unfair that the poorest developing countries were actually made worse off).

There's a sense in which what happens now is of relatively little concern to the developing countries, except for one thing which has just changed. The push by the

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Bush administration for bilateral trade agreements may result in an international trade regime which is even worse than that which would have emerged from the successful completion of the Doha round (assuming from where the development round has been going). For the most part, these bilateral agreements have been adverse to the interests of developing countries: they reduce access to generic medicines and undermine the whole global trading system. The patchwork of bilateral agreements is resulting in an international trade regime which is bad for both developed and developing countries. With the Democrats back in control of Congress, I think this particular strategy is not likely to have much success. The proliferation of bilateral agreements is the major threat from the failure of the Doha Round, and I think that threat is now contained—although it has not disappeared because there still is a possibility that Europe and Japan may pursue these bilateral trade agreements. But at least their scope will be markedly less than it would have been if the Republicans had stayed in control of Congress. ●

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