The McNamara Bank and Its Legacy, 1968-1987

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Over the past fifty years, the World Bank has been an innovative public organization in the field of development finance. [2] In the aftermath of World War II, it provided funds for reconstruction and then began to channel infrastructure investments to areas of the world that were not well-served at that time by private sources of capital.[3] In the 1960s and 70s, the institution looked beyond traditional concepts of economic development and increasingly directed its efforts at confronting basic socio-economic problems in the societies it served: poor health, over population, illiteracy, and

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[2]The institution's name is The International Bank for Reconstruction and Development. To avoid using IBRD throughout, we are using "The World Bank" and "The Bank." As of 1956, when the International Finance Corporation (IFC) was organized as an "affiliate," the institution became The World Bank Group.

[3]We have discussed this early phase of The Bank's development in Galambos and Milobsky [forthcoming]. For our concept of an innovative organization see Galambos [1993 pp. 79-91].

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relatively primative farming technologies. Relief of poverty rather than development as such became the top item on The Bank's agenda. In the 1980s, the Bank changed course again, giving greater emphasis to the private sector in its lending policies.

Given its record of accomplishment and institutional flexibility, one might have expected The Bank to have a positive public image -- especially in the United States, where the organization's headquarters are located (in Washington, D.C.). But that has not been the case. One prominent financial journal recently described The Bank as "Fat and friendless." It was, the article said, "at seige at home" [*Euromoney*, pp. 2-6]. Another author pointed to "the profound human and ecological damage caused by its lending...." The institution, he said, needed to be reinvented if not destroyed [Rich, 1994]. Nor are these isolated examples: for some years now The Bank has truly been "at seige."[4]

How can we account for the widespread hostility toward an institution whose goals seem on the surface at least to warrant widespread approval? To answer this question, we think it is necessary to look closely at The Bank's history during the past few decades and to look in particular at the manner in which the institution read and responded to the signals coming from its several environments. Our contention is that the organization did a much better job at reading the messages coming from the developing countries and from the global financial community than it did at reading those emanating from its political and ideological setting.

The difference stands out rather clearly. Over the past twenty-five years, the Bank has remained attentive to the economic messages coming from the developing world and has used that information to correct its course; it has experimented with a variety of new strategies and tactics for meeting the needs of its poorer, borrower member countries. By contrast, during those same years, the organization

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[4]Rich [1994, pp. 111-147] describes the Green attack on The Bank from 1983 on, but also see the critique in van de Laar [1980, especially pp. 143-208].

seemed woefully unprepared when environmental groups began to challenge its record on ecological issues and when conservatives began to characterize The Bank as a self-indulgent institution that forced unsuccessful, neo-socialist programs on nations that would otherwise have successfully embraced private enterprise.

How could an institution be so well attuned to the shifting economic tides yet so insensitive to major changes in its political milieu? One part of the answer, we believe, can be found in the changing relationships that have existed between the Bank's institutional culture and its structure.[5] Another important factor has been the quality of The Bank's leadership. The impact of both factors can be seen in the presidency of Robert S. McNamara (1968-1981). McNamara's goals and unique brand of leadership bonded with The Bank staff's powerful sense of mission, resulting in a burst of innovative activity and a surprising expansion of lending volume. This was followed in 1972 by a major reorganization and by the development during these years of a new primary culture in the

[5]The business literature of the 1980s highlighted the relationship between structure and culture. Culture at that time was most often analyzed as an impediment to change. New structures could reshape culture, but only if transitions were managed properly. This approach to culture was, we believe, grounded in structural-functional sociology and filtered to the business community through the business press and management consultants. See, for example, Peters and Waterman [1982] and Lawrence and Dyer [1983]. One major source of the structural-functional orientation was the work of Alfred D. Chandler, the dean of American business historians.

More recently, a different approach to culture has emerged in various academic disciplines. In academia at present, culture is hot. Institutions are not -- including business institutions -- and much of the recent work in cultural history, for instance, turns the kind of structual-functionalism characteristic of Chandleresque business history on its head. This newer style of history stresses the causal role of culture. In its most extreme form, the new cultural history leaves structural elements entirely out of our vision of the past. History then becomes the study of how past cultures were constructed and how they have been reconstructed in various settings. The analysis of politics becomes a discourse on political cultures, and the study of modern capitalism becomes a treatise on the culture of consumption. For a few examples of the new cultural history, see Fox and Lears [1983], Agnew [1986], and Meyerowitz [1993]. While we lean toward our own brand of neostructural-functionalism, we draw upon the new cultural history from time to time.

institution. These changes were accompanied by an impressive wave of innnovations in the field of development policy, innovations that brought major benefits to the Bank and many of its underdeveloped members. But paradoxically these changes in the institution limited its ability to respond effectively to new and threatening developments in its political and ideological environments. Between 1968 and 1987, when The Bank experienced its third major reorganization, the institution became more centralized and hierarchical. Information, orders, and new ideas flowed from the top down, changing decisively the manner in which the organization developed and implemented innovations. It is that process of organizational transformation and its implications for The Bank's ability to respond to change that we examine.

Culture and Structure in The Bank before McNamara, 1946-1968

By almost any standards other than those of Robert McNamara, The World Bank was already a successful organization when this former Secretary of Defense and quondam CEO of the Ford Motor Company became its fifth president [Shapley, 1993]. One of the several new international organizations spawned in the 1940s in an effort to avoid World War III, The Bank had become an important financial intermediary between the developed industrial powers of the West and the underdeveloped, non-communist nations of the Third World.[6] During these years, there emerged in The Bank three distinct cultural strands: one was dominated by a sense of social mission, a powerful ideological commitment to improving the world through public-sector economic programs; another was the banking culture framed in terms of prudent fiscal behavior; a third embraced a

[6]The best guide to the early development of The Bank is Mason and Asher [1973]. The desire to avoid another world war was, we believe, the general impulse behind the development of the entire structure of new international organizations -- including the United Nations -- devised in the late stages of World War II; there were of course specific impulses associated with each particular institution, including The Bank.

technical approach to problem-solving and project-design in all of the works supported by The Bank [Galambos and Milobsky, forthcoming].

As should be apparent, the central values of these three strands of culture could on occasion be mutually reinforcing and at other times antagonistic and competitive. Cultural interactions were not, however, a zero sum game, and The Bank's success in these years was in part a consequence of successful mediation between these three cultures and their proponents. Compromise was facilitated by the extent to which all of the management and the personnel accepted some measure of the social mission ideology. Their degree of commitment varied. They argued at length over what kind of activities were needed to keep The Bank viable. But they sought common goals while they vigorously debated about means.[7] All the while, they were also eased toward compromise by the fact that the core leadership of the organization was largely drawn from the United States, Great Britain, and the Low Countries. Most of the leaders were from similar educational backgrounds and compatible national cultures [Mason and Asher, 1973, p. 68].

Still a relatively small international organization as late as 1968, The Bank had nevertheless experienced considerable growth[8] and structural change [Galambos and Milobsky, forthcoming] in the previous two decades. The Bank's leaders -- concerned primarily about the efficiency of operations and guided by signals coming from the staff most deeply involved with borrower countries -- had reorganized the institution along functional/geographical lines in 1952. Later, the organization's shareholders created two major affiliates: the International Finance Corporation (IFC, 1956), which

[7]See, for instance, the comments on these disagreements in Warren C. Baum, Oral History, World Bank Group Archives; hereafter WBGA.

[8]Mason and Asher [1973, Table E-3, p. 832] lists the annual loans and credits from 1947-1971. For the number of staff members and staff/millions of dollars in loans and credits see *ibid.*, Table 4-2, p. 67.

sought to encourage private enterprise [Mason and Asher, 1973, pp. 335-379]; and the International Development Association (IDA, 1960), which extended support to countries too poor to meet the institution's regular terms of payment for loans [Ibid., pp. 380-419]. During the presidency of George Woods (1963-1968), The Bank also shifted its attention decisively toward Africa and toward the role of human capital -- especially in agriculture and education -- in economic development [Reid, 1973, pp. 20-21; Oliver, 1995; *Financial Times*, January 9, 1964; Woods, Summer 1966; Woods, December 1966, v. 1, pp. 40-46].

During the years before 1968, structural change had taken place and values had shifted -- the engineers had moved up and the economists down -- without a decisive transformation of the organization's culture. The driving force of change was the experience with development, an experience that was steadily pulling the organization deeper into the affairs of the recipient nations (Part II members in IDA parlance). This first cycle of innovation, the McCloy/Black[9] cycle, fits rather comfortably in a structural-functional model of organizational change. The Bank's three major cultural strands were still largely intact, and there were as late as 1968 no major external challenges to those cultures or to the institution. The organization had negotiated several important transitions without losing either its banking and technical values or the social mission concepts that gave the institution cohesion. The Bank still had a collegial atmosphere. The Bank had become more bureaucratic. But it had not lost its ability to respond creatively to information the professional staff was collecting from client nations struggling with the problems of underdevelopment.

[9]We have named this cycle for the two presidents who did the most to shape The Bank's structure, operations, and culture during these formative years: John J. McCloy (1947-1949) and Eugene R. Black (1949-1963).

Robert McNamara's Bank, 1968-1981

The Bank's new president in 1968 quickly set out to enlarge its operations in a dramatic fashion. This new transition -- the most formidable in The Bank's short history -- did not arise internally. It was primarily a product of Robert S. McNamara's commitment to what might best be labled "global liberalism."[10] The Bank's new president had been inspired by John F. Kennedy and his articulation of new goals for America and the world. These goals were to be achieved primarily through public sector innovations at home and abroad, and McNamara soon began to transform The Bank to prepare it to play a new role in the world economy.

The means to achieve this reformulated mission were a varient on the techniques McNamara had already applied in his effort to remake the nation's defense establishment and to reorganize the Ford Motor Company. McNamara was almost as strongly dedicated to behavioral and quantitative modes of communication and control as he was to his new goal of creating a better world through publically guided economic development. He shortly had The Bank marching to the new drum of operations research and systems control.

Both the means and the ends of this new order evolved during

[10]The type of liberalism identified here was U.S., post-industrial (i.e., post-about-1880) liberalism of the sort that gave heavy emphasis to governmental solutions to welfare and regulatory problems. It should of course be distinguished from pre-industrial liberalism which emphasized the need to give individuals freedom from governmental constraints. In the United States, liberalism changed in many ways between the late nineteenth century and the middle of the twentieth century, but for the most part, this ideology and its advocates were concerned with domestic problems associated with equity and security. That, for instance, was the primary focus of Franklin D. Roosevelt and the New Deal of the 1930s. During and after World War II, some American liberals (including FDR) began to think in more internationalist terms. They began to devise means of achieving through public institutions greater equity and security for groups outside the United States and its immediate neighbors. It is that ideological transition that produced what we have identified as "global liberalism." In the 1930s, FDR focused public attention on the enormous task of reducing poverty in the United States; in the 1960s, McNamara wanted to "eradicate...absolute poverty" in the entire world.

McNamara's early tenure. Taking office on April 1, 1968, he soon was pressing for new resources and an enlarged staff to handle the institution's increased lending activities.[11] In September of that first year, he laid before The Bank's Board of Governors his five-year plan: "globally the Bank Group should...lend twice as much as during the past five years. This means that between now and 1973 the Bank Group would lend in total nearly as much as it has lent since it began operations 22 years ago" [McNamara, 1981, p. 6]. While lending to Asia would continue to increase, The Bank, he said, would shift more of its attention to Latin America and to Africa, to borrowers with the poorest resources and the "greater need" [Ibid., pp. 8-9]. In these countries, in particular, priority would now be given to education, agriculture, and the volatile issue of population control. On a broader level, the Bank's energetic president also began to reshape his institution's view of the development process. In 1973, he added to the traditional issues of economic growth a commitment to seek the elimination of "absolute poverty -- utter degradation..." in the developing nations.[12]

During these early years, the McNamara innovations weakened two important elements in The Bank's culture. The technical culture suffered as the focus of Bank activity shifted from

[11] See the President's Council, Minutes, April 8 through September 9, 1968, WBGA. See, for example, McNamara's expression of "surprise at the low 1968 commitment figure for development finance companies...." He asked for a report by the end of the week as to "the amount development finance companies could prudently and effectively *absorb* in the current fiscal year" [*Ibid.*, August 5, 1968 (italics added)].

[12] It is interesting to follow the development of McNamara's ideas on this issue. In 1969, he expressed concern about the relationships between industrialization, urbanization, and unemployment, but he was not yet focused on poverty as such. See, for example, Robert S. McNamara, "Memorandum for the Record, July 15, 1969, WBGA. In 1970, 1971, and 1972, he would discuss the distribution of income and wealth and its relationship to world poverty. Then, in 1973 he made solving the "poverty problem" -- that is, the poverty of "the most deprived 40%" or "absolute poverty" -- the primary objective of the organization's second five-year plan [McNamara, 1981, pp. 101-106, 129-132, 165-166, 174-177, 216-225, 233-261].

individual projects to country-oriented lending.[13] With a country-orientation, economic analysis became more important to The Bank's day-to-day operations and technical analysis less significant. Higher levels of abstraction and aggregation made technical work and technical values seem less important. Meanwhile, McNamara's quest for capital was stunningly successful.[14] Shortly, staff members throughout the institution were rushing to approve additional loans and reach the targets set by the president. While engineering reports were still essential elements in the development of individual projects, it was clear to the organization's staff that the technical culture was no longer one of the dominant sets of values in The Bank.[15]

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[13]V. Rajagopalan, the former head of the Bank's Council For International Agricultural Research and an environmental engineer, described the shift in this way: "Increased emphasis was placed on presentation, on fine report writing. Technical people [engineers] are not very good at writing reports. Economists, on the other hand, are extremely good at writing reports. So the balance of power within the Bank was shifting towards economists and away from people with a detailed knowledge of technical subjects." V. Rajagopalan, Oral History, p. 12, WBGA. Richard DeMuth, a high level bank official from 1946 to 1973 echoed Rajagopalan's sentiments. See Richard DeMuth, Oral History, p. 24, WBGA. See also John Blaxall, Oral History, WBGA.

[14]Eugene Rotberg, McNamara's choice for World Bank Treasurer, brought an aggressive attitude to the Bank's Finance Department. Searching the world for pools of capital that they could borrow at favorable rates, Rotberg and his associates greatly accelerated the Bank's borrowing activity. Annual Bank borrowing nearly doubled between 1968 and 1971, rising from 735 million to 1,368 million U.S. dollars. By 1981, this figure had risen to 5,068 million dollars. Rotberg's department was particularly adept at taking advantage of aberrations in capital and securities markets to broaden the Bank's financial base. See World Bank Annual Reports, 1968-1981; Eugene Rotberg, Oral History, WBGA.

[15]In 1972 this change would be formally reflected in the new structure of The Bank. The projects organization that had long (previously as the Technical Operations Department) provided the engineers with an institutional base and leadership was eliminated and the engineers were distributed among the various regional offices. Robert S. McNamara, "to all staff members," August 10, 1972; and "The World Bank Reorganization: A Preliminary Guide to Changes in Structure, Process, Management Style," October 1, 1972; both in WBGA.

The banking values gave way more slowly, in part because at first McNamara badly needed the support of the U.S. investment community that had been providing the organization with the bulk of its funds. In 1969, McNamara told the Bond Club of New York that The World Bank was "a development *investment* institution, not a philanthropic organization and not a social welfare agency." It would, he said, continue to be guided by "two basic principles: the project must be sound; and the borrower must be creditworthy."[16] Indeed, in the years ahead, all of The Bank loans would continue to be repaid [Lewis, 1995, p. 35]. But McNamara surely protested too much. The Bank's focus was shifting from sound projects to needy nations, from discrete investments to the number of persons living in "absolute poverty." Bankers did not (and do not) normally lose much sleep over a skewed distribution of income, one of President McNamara's major concerns.[17] It was a question of priorities. Prudent banking concepts became relatively less important as growth-oriented economic concepts of how to promote sustainable economic development became the primary concern. As a result, the bank culture that President John J. McCloy had so carefully planted and that President Eugene R. Black had so long nurtered became a less prominent element in the day-to-day activities of the organization. While the relative decline was less precipitous than that of the

[16]McNamara [1981, p. 55]. In this case, McNamara put his finger on one of the cultural tensions produced by the new orientation of The Bank. The type of liberalism that was a central element in McNamara's ideology had deep roots in domestic social welfare reform and in related efforts to ensure a greater measure of equity for those with the least wealth and power in our society.

[17]"The issue in terms of Bank policy really was whether to modify our project evaluation criteria by giving somewhat greater weight to incomes of the poor which, in fact, we did. One effect of saying that we want half of our agricultural lending to go to the poor means giving more weight to the poor recipients than to others because that is going to tilt how we choose projects." Hollis P. Chenery, Oral History, WBGA. See also Robert S. McNamara, "Memoranda," January 6, 7 and 12; and April 5, 1972; WBGA.

technical culture, the change was noticeable.[18]

New personnel accelerated these transitions in values. For a few staff members and managers, the new mission and values of The Bank were intolerable, and they resigned from the organization.[19] But the most important changes were a result of the additions, not the subtractions, from the organization. The staff grew by 75% during McNamara's first three years on the job and the "new boys" ruffled the feathers of some of the "old boys" who stayed with The Bank through this transition.[20] The committee system that had handled tensions within the institution began to break down at this point and for a time The Bank experienced difficulty in handling the increased flow of transactions mandated by the President [Shoaib, 1971; President's Council, Minutes, February 25, July 13, December 21, 1970; June 28, October 8, December 22, 1971; Galambos and Milobsky, pp. 30-31].

The ensuing sense of turmoil, which resulted in a major reorganization in 1972, would have been far more severe had not McNamara's brand of "global liberalism" resonated so well with the

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[18]Robert Cavanaugh, one of the "old boys," had been with The Bank since 1947 and had been Treasurer since 1959. He left the organization in 1969 because he objected to the new directions being taken in finance. Robert W. Cavanaugh, Oral History; and Harold Graves, "Notes from Interviews of R. W. Cavanaugh, Nov.-Dec. 1968"; copies in WBGA. For more on Cavanaugh's departure, see Eugene Rotberg, Oral History, WBGA. On Cavanaugh's career see Mason and Asher [1973, p. 110].

[19]In addition to Cavanaugh, John Williams, head of the Program and Control Department (which later became the Programming and Budgeting Department) left. See John Blaxall, Oral History, WBGA.

[20]Between 1968 and 1973, the professional staff increased from 767 to 1,654 members. By 1981 the figure was 2,552 [William Clark, 1984, pp. 169, 170; *World Bank Annual Report*, 1981, p. 16]. Clark comments on the criticism within The Bank of the McNamara policies and "of the increased size and power" of the organization. "It came first of all from the old staff of the Bank who found themselves being hustled out of their customary rather leisurely perfectionism and forced to deal with poverty and aid rather than with direct and visible forms of wealth creation and investment" (p. 174).

social mission culture that had held the organization together for its first two decades. McNamara's vision actually extended and strengthened the mission ideology, and his expansion of bank lending enabled those who most closely identified with area work to achieve more than they had been able to do before 1968. They could reach across a broader front in the developing countries they serviced and could at the same time reach deeper into those societies and their basic institutions. Then too there was McNamara's example: he was a tremendously active, internationally visible leader, a president whose capacity for work seemed to exceed human limits and whose desire to rid the world of "absolute poverty" seemed -- for a time -- to place him above criticism. While McNamara was distant and given to formal relationships, that appeared to be a small price to pay for the brilliance he had already demonstrated in tapping new sources of funds in the Middle East, Europe, and then Asia [Clark, 1984; Henery; Ryrie; Baum; Shapley, 1993, pp. 527-582; President's Council, Minutes, June 15, July 20, November 16, 1970; June 21, July 19, 1971; McNamara, September 19, 1969].

So successful were McNamara and his financial associates that The Bank could no longer handle this flow of funds in a timely and efficient manner. The result was a second reorganization prompted in an immediate sense by functional considerations but in an ultimate sense by the cultural transformation stemming from the institution's new leadership and mission. Guided by the leading management consulting firm in the United States, The Bank adopted the multi-divisional (that is, M-form) style of decentralized organization popular in America's diversified industrial corporations during these years. The theory of the reorganization was that it pushed authority down to lower levels in the organization. In theory, it should have had important cultural consequences, easing the strains in the institution by allowing various divisions and functional departments to maintain their own distinctive cultures (as had the engineers and bankers before 1968). In multi-divisional private corporations that had extensive overseas operations, many of the divisional subsidiaries developed their own national leaderships, cultures, and operational styles [Chandler, 1962].

But that was not to be at The Bank. In this case, style of leadership overrode both strategy and structure. The style was McNamara's hallmark brand of forceful and intrusive leadership and his systems mode of control. The systems in this case came from the President's office and the Bank's Programming and Budgeting Department, as did streams of directives to the new regional departments. The intellectual core of the McNamara Bank was provided by economic analysis, and the evidence used to prove and disprove conclusions in the organization was largely quantitative.[21] At the lower levels of the organization, in the regional and country offices, staff members read the signals coming from their leader: their jobs were to implement programs and to gather information for the system of control. High performance was closely related to the volume of loans handled.[22] In the functional offices like the one for finance, similar signals achieved similar results [Rotberg].

[21]There was now a vice president for development policy, and there were economists on the top management team in each of the regional offices. The first vice president for development policy was Dr. Hollis P. Chenery, a development economist from Harvard University. According to Chenery, McNamara made it clear at their first meeting "that the reason he was interested in me was to establish not only a research capability in the Bank but a quantitative research capability." Hollis P. Chenery, Oral History, WBGA. For good examples of the manner in which McNamara put pressure on The Bank staff see the following: President's Council Meeting, March 2 and 9, May 4 and 25, June 19, July 13, 1970; WBGA. The President wanted "a minimum of delay," queried "the effectiveness of controls," attacked "inadequate" forcasting, and wanted new approaches "promptly." There were, in short, no doubts about what kind organization McNamara was running and how, exactly, he wanted it run.

[22]In an oral history interview, Richard DeMuth commented on the pressure to keep lending volumes high. "We had a five year program which was a composite of all these country programs, and we were darn well going to meet those programs. The lending targets were set without real regard to whether the projects that were being financed were ready for financing.... Numerous times loan officers and project people told me that they had been pressured to make a particular loan in order to meet the target even though the project wasnt ready for financing yet." Richard DeMuth, Oral History, p. 25, WBGA. In 1992, Willi Wapenhans' Portfolio Management Task Force developed data that indicates to us that the increased pressure to lend was one of the factors that brought about a deterioration in portfolio performance. See *Effective Implementation* [1992].

De facto centralization, the expansion of the staff, the emphasis on throughput, and the tendency to centralize development planning had an impact on the manner in which The Bank innovated.[23] The organization was actively innovating through McNamara's entire tenure. The organization continued to grow through 1981. Borrowings jumped from $3,524 million in 1968 to $5,068.8 million by McNamara's last year as president [Mason and Asher, 1973, Appendix F, p. 857; *World Bank Annual Report*, 1981, p. 85]. The Bank's mission shifted twice during those years. The first transition came when McNamara in 1973 made the reduction of poverty a primary goal of the institution.[24] This was a major change in emphasis for an organization which had been guided by a development theory that emphasized infrastructure improvement and aggregate growth. McNamara was nudged toward this new goal by his chief economist Hollis Chenery and by the publications of

[23]Our concept of innovation follows but modifies that of Joseph A. Schumpeter. See Schumpeter [1961] and [1950, especially pp. 61-163]. For an application of Schumpeter's concept to public institutions see Doig and Hargrove [1987]. In our own view, innovation involves patterns of behavior that are new to a particular organization (but not necessarily to the entire society) and that yield advantage to that institution. See Galambos [1993, pp. 79-91]. As should be evident, however, even the most successful innovations are likely to have unanticipated consequences that can over the long-term change the cost-benefit calculation for the organization.

[24]McNamara's speech to The Bank's Board of Governors on Sept. 24, 1973, in Nairobi, Kenya, marked the beginning of his attack on poverty in the developing world. The speech focused on the dimensions of world poverty and the need to increase the productivity of subsistence agriculture in poor countries. See McNamara [1981, pp. 233-261]. A series of sector policy papers following the Nairobi speech outlined The Bank's plans to attack a number of poverty-related problems directly. They included: rural development; basic education; basic health; and low-cost housing. The Bank's Development Research Center, meanwhile, turned much of its attention to questions of poverty and income distribution. See Chenery, et al. [1974]. For a longer discussion of the Bank's poverty orientation and its impact on project work see Ayres [1983] and Hurni [1980].

Barbara Ward and Rene J. Dubos;[25] his visits to Africa, Latin America, and Asia also prompted a new concern for the distribution of income and the immense problems of the world's poorest people [McNamara, January 20, 1970]. The second major change came late in his tenure, after the oil shocks had pushed inflation to new levels and left many of the world's poorest economies unable to meet their obligations. Then McNamara and his staff guided The Bank into the business of "structural adjustment" loans, that is, loans made to enable the borrowers to make the adjustments (e.g., increasing exports and/or decreasing imports) that would allow them to deal more quickly and effectively with their trade deficits.[26]

The End of the McNamara Cycle of Innovation

The Bank was thus a vibrant, changing, growing organization as late as 1981, but it was also an organization sailing a dangerous course. In the 1970s, "global liberalism" and the McNamara program at The Bank were already at risk on two major fronts. At first, the major threat appeared to be from the environmental movement. Early in the decade, McNamara took the position that "the Bank in its

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[25]"Mr. McNamara asked Mr. Maddux to prepare a draft statement for the Stockholm Conference. He suggested that Mr. Maddux read Barbara Ward's and Rene J. Dubos' new book and papers issued in preparation for the Conference." Robert S. McNamara, Memorandum, April 5, 1972; WBGA. On Chenery see ibid., January 7 and 12, 1972; WBGA. President's Council, Minutes, February 15, March 8, April 12 and 19, May 24, 1971; WBGA.

[26]For more on structural adjustment lending, see Moseley, et al. [1991] and Leslie [1987]. See also McNamara [1981, pp. 614-22] for figures on the current account deficits of the oil-importing, developing nations and for a discussion of The Bank's structural adjustment program. This program involved private-sector as well as public-sector components. Many of the "adjustments" were policy changes designed to make the export-oriented, private sectors of the developing economies more productive. But the discussions of structural adjustment in the President's Council indicate that the primary focus in The Bank was on the public elements: relief for the current account deficits; and the specific public policy changes that would facilitate adjustment. There was very little specific discussion of the anticipated private-sector developments. The Bank Historian, Jochen Kraske, strongly disagrees with our characterization of these loans.

project work ought to evaluate... ecological effects...." He had been confronted with this issue, he explained, in regard to The Bank's Murchison Falls project in Uganda. He wanted "systematic reviews of projects where ecological problems were likely to arise" [President's Council Meeting, January 26, 1970]. Later, when environmental concerns surfaced at the U.N., he "contended that the conflict between economic growth and environmental concerns in LDCs is *not as serious as some maintain...*" [McNamara, April 5, 1972; italics added]. But clearly, the organization was beginning to feel pressure from those ecologists who were less certain than The Bank's leadership was that all of the dams and roads and other projects under construction were good for the countries involved or for their populations.[27]

The Bank responded to these pressures in a marginal fashion. To his personal credit, McNamara seemed more sensitive to environmental concerns than his colleagues on the President's Council [McNamara, March 5, 1970, April 5, 1972; President's Council, Minutes, February 2, March 23, 1970]. But as that indicates, the other members of the Council were not correctly reading the signals coming from their political and social setting. Even McNamara clearly underestimated the nature of the environmental challenge.[28] Neither he nor his closest advisors recognized just how

[27]The Bank established a new position, environmental advisor, in 1970. McNamara selected for this position Dr. James Lee, a senior staff member at the National Institutes of Health Center of Environmental Health Sciences. As of June 1972, however, the advisor had not found any projects that presented such severe environmental problems that The Bank had to refuse a loan [McNamara, 1981, p. 199].

[28]See Robert S. McNamara's speech before the United Nations Conference on the Human Environment, June 8, 1972, in McNamara [1981, pp. 193-206]. While acknowledging that the problems were "serious," McNamara said "they are not beyond solution. Intensified research, precise analysis, and decisive day-to-day action are what they most require." He was certain that those in the "development community" would be able to integrate their "mandate to assist in the economic advance of the developing countries with our responsibility to preserve and enhance the environment." But of course many environmentalists would not believe that even "decisive day-to-day action" by The World Bank would result in the promised integration.

fundamental this attack on the mission of The Bank would become.

Throughout the 1970s and into the early 1980s the Bank's Office of Environmental and Scientific Affairs (OESA) played an active role in reviewing Bank projects and establishing environmental and public health guidelines for project work.[29] Dr. James Lee, the Office's director, was eager to prove that his office was more than window dressing. All Bank projects were subject to OESA's review, and, in early 1972, the Office published an exhaustive catalog of "Environmental, Health, and Human Ecologic Considerations in Economic Development Projects." The "green book" -- as it was called -- was required reading for all Bank staff members. Every country division director had to show that his projects conformed to its guidelines. In addition, Dr. Lee also emerged as a leading advocate for the financing of purely "environmental" projects. In 1971, the Board of Directors approved the first of these ventures, a loan to Brazil for water pollution control.

In his address to the 1972 United Nations Conference on the Human Environment (the "Stockholm Conference"), McNamara expressed the basic convictions that would continue to guide policy at The Bank through the 1970s. McNamara believed that his institution had already satisfactorily responded to the challenge of the growing environmental movement. He ended his speech with a strong declaration of the Bank's committment to finding an optimal balance between economic growth and environmental health. With Lee and his team of environmental watchdogs on the job, McNamara obviously thought that he could again devote his full attention to his

[29]Initially the Office of Environmental and Health Affairs (OEHA), it became the Office of Environmental Affairs (OEA) soon thereafter, and the Office of Environmental and Scientific Affairs (OESA) in the early 1980s. We have used the latest name (OESA) to avoid confusion.

global agenda.[30] Later events would show, however, that McNamara underestimated this decisive change in The Bank's political and ideological environment.

Although Lee and his colleagues were ambitious and committed to environmental protection, their role in The Bank's activities appears to have remained marginal. Their enthusiasm for environmental issues never permeated the Bank's institutional culture. Meeting the lending targets remained the leader's number one priority. It is true that environmental provisions were included in all loan agreements after 1970, but they were largely formalities. Implementation of these provisions was far from consistent, and follow-up evaluations were hurried and incomplete. There is no evidence that The Bank rewarded those staff members with the most environmentally friendly projects. Instead, the organization continued through the 1970s and into the 1980s to emphasize high-volume loan activity focused on the elimination of "absolute poverty" and the encouragement of equitable economic development.

While Lee tried to overcome these problems, his operations evaluation capabilities were limited. He spent most of his time cultivating relationships with ecological research centers. He paid substantially less attention to the larger, more politically active (and in that regard more dangerous to The Bank's mission) environmental organizations.[31] Within The Bank, most of Lee's correspondence

[30]McNamara [1981, pp. 193-206]. Dr. Lee's description of his first meeting with McNamara also indicates that The Bank's president underestimated the complexity and scope of the environmental issue. At that meeting, McNamara offhandedly told Lee to "turn around" the Bank's environmental record and satisfy the public's need for environmental health. James A. Lee, Oral History, WBGA.

[31]The environmental movement had been steadily gaining political strength in the U.S., Western Europe, and Japan since the 1960s. As the ranks of environmental organizations swelled over the next two decades, the leaders of these institutions became increasingly adept at the give-and-take of electoral politics. A number of the groups -- such as the Environmental Defense Fund, the Environmental Policy Center, Environmental Action, and the Natural Resources Defense Council -- became quite knowledgeable about the technical

regarding project evaluations was one-way -- from his office to the project officers. What little feedback he received was predominantly negative. Although many of the Bank's economists were sympathetic to his concerns, they complained that he did not frame his arguments in economic terms. Since Lee's memos did not quantify the social costs of pollution, the economists were inclined to consider them irrelevant to their analyses. Under these conditions, environmental factors were unlikely to become key components in project work.[32]

McNamara's establishment of OESA and his endorsement of the Bank's new environmental goals appear to have lulled the institution into a false sense of security. The global environmental movement was becoming stronger during the 1970s and there was an opportunity at this time for The Bank to develop strong, positive ties to the movement.[33] But the organization missed that opportunity

aspects of substantive issues such as air/water pollution control. They developed political and legal capabilities. As a result, environmental issues began to have a considerable impact upon judicial, administrative, and legislative decision making in the United States and other countries. See Hays [1987], Lacey [1989], Petulla [1987], Wilson [1970], and Scheffer [1991].

[32]James A. Lee to Bernard Chadenet (Dec. 28, 1970); G.F. Darnell to W.A. Wapenhans (May 25, 1971); Charles Weiss to Mahbub Ul-Haq (April 19, 1972); Edward V.K. Jaycox to James A. Lee (Nov. 29, 1972); Shirley Boskey to James A. Lee (Dec. 29, 1975); S.J. Baker to K. Pranich (Nov. 11, 1975); J. Tixhon to James A. Lee (Dec. 29, 1975); James A. Lee to Raymond Rowe (Mar. 12, 1976); J. Tixhon to Robert McNamara (July 15, 1977); James A. Lee to Robert McNamara (Dec. 12, 1977); J.C. Collins to R. Goodland (Nov. 4, 1979); Zmarak Shalizi to Donald Strombom (July 28, 1980). All documents from Files of the World Bank Office of Environmental and Scientific Affairs, WBGA.

[33]See, for instance, the favorable comments on The Bank in Wilson [1970, pp. 51-52]. On the growth of the movement see Princen and Finger [1994]. As the authors point out, the rate of growth in environmental NGOs increased sharply in the 1980s. But during the previous decade, the movement was well underway in the United States and abroad. As early as 1972, there was an Environmental Liaison Center International and from the mid-1970s on, NGO growth in Latin America was quickening. In 1980, the Indonesian Environmental Forum brought together seventy-nine NGOs. The Friends of the Earth was a U.S. organization (1969), but in 1970 it opened an office in Paris and expanded to London the following year. The Nature Conservancy started its international program in 1974, two

because it failed to read the signals coming from this part of its environment. Neither McNamara nor his successor as president prepared the organization for the fierce attack the environmental NGOs (non-governmental organizations) would launch in the mid-1980s. Then, the NGOs mounted a fierce attack on a number of Bank projects that they found to pose significant environmental and public health risks. Radical critiques of The Bank began to appear in the headlines, and the Bank's response to this media onslaught was weak.[34] With its public image tarnished, The Bank endured a painful reevaluation of its environmental record in the legislatures of the Part I countries (especially the United States) -- a reevaluation that was threatening to the institution's sources of political and financial support.[35]

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years after ENDA Tiers-Monde was organized in Africa. Greenpeace also began operations in the 1970s, as did the London-based International Institute for Environment and Development (pp. 1-25).

[34]Organizations such as the Sierra Club and the Environmental Defense Fund objected vociferously to a number of Bank projects. Foremost among them were the Polonoreste land reform project in Brazil, the Narmada Valley dam project in India, the transmigration program in Indonesia, and the Pak Mun dam project in Thailand. For NGO critiques of these projects see, Sierra Club [1987]. On Polonoreste, see "World Bank's Polonoroeste Project" [1985, pp. 69-72]. On Pak Mun, see *The Washington Post* (August, 28, 1991), "Power Struggles," *Far Eastern Economic Review* (October 17, 1991), "Green Thoughts by the Bank," *Economist* (November 2-8, 1991), p. 35. On Narmada Valley, see "World Bank to Decide Fate of Narmada Dam," *Financial Times* (October, 22, 1992); "India Dam Plan -- Environment Symbol," *New York Times* (June 2, 1992); "Battle to Dam Troubled Waters," *The Independent* (May 2, 1988). For a less partisan critique, see Graham Searle [1987].

For evidence of The Bank's weak response to the environmental media offensive, see the summaries of Board discussions: those of December 10, 1991; June 19, 1992; and October 23, 1992 are the most comprehensive and the most informative. In these discussions, the Executive Directors and The Bank's senior managers complained of an "information vacuum" around environmental issues -- a vacuum that the NGO's were filling with negative publicity about The Bank.

[35]The NGO's arguments caught the attention of Congress, and a number of members in both houses sought to attach stricter environmental conditions to funds earmarked for IDA replenishments and capital increases. See "World Bank's Hint of Green," *Nature* (June 29,

While the changes that took place in The Bank during the McNamara cycle of innovation successfully stimulated the flow of aid to developing countries, they appear to us to have hindered the institution's ability to respond to shifts in its political and ideological landscape. Centralization impeded the flow of information, as did the overwhelming emphasis on McNamara's goals. His global agenda bonded so tightly with the staff's sense of social mission that the institution found it difficult even in the late 1980s -- years after McNamara had retired -- to adapt its culture or performance to the demands of environmental politics.

Another major threat to The Bank was also gathering force in the 1970s, and in this case, McNamara was no better than his fellow executives in reading the shifting contours of the world political setting. This time the threat came from a long-term swing away from the type of liberalism McNamara had embraced and toward a more conservative, market-oriented ideology. The style, content, and timing of the movement varied from country to country, but this was clearly a broad transformation that was global in scope. Experience with public-sector programs and institutions helped shape this movement, as did new modes of economic and social analysis. In the capitalist democracies and quasi-socialist countries, the movement frequently involved efforts to shave away significant parts of the welfare state and to curb regulatory activities. Privatization of functions heretofore reserved to the administrative state took place across a broad front. One of the peaks in the movement was the collapse in the 1980s of Soviet and East European communism, events that clearly marked the end of a century and a half of left-dominated state growth.

From the vantage point of The Bank's offices in the 1970s and 1980s, however, these developments appeared merely to be part of

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1989). The Bank responded later that same year. President Barber Conable instituted an "Operational Directive on Evironmental Assessment." This bylaw required a formal environmental assessment for all projects that could have a significant ecological impact.

the regular pulse of democratic politics at home and abroad. After all, The Bank had thrived during two conservative U.S. administrations in the 1950s and been able to launch the McNamara expansion in the next decade. That growth phase had carried through the tumultuous 1970s, and President Carter's election in 1976 seemed to presage better times for an institution dedicated to McNamara's style of global liberalism. There was Margaret Thatcher's conservative government in Britain to worry about; and since the late 1960s, The Bank had been finding it harder and harder to persuade the U.S. Congress to replenish the funds of the International Development Association. But as late as 1980, neither President McNamara nor others in The Bank seem to have recognized that a fundamental change was taking place: instead of conservative interludes in a long-term liberal trend, the world had since the 1950s been experiencing brief liberal interludes in an increasingly conservative political economy.[36]

The Bank had a number of windows from which these developments should have been viewed. One of them was the International Finance Corporation (IFC), the subsidiary that dealt with the private sector in the developing countries. As such, it should have been accumulating information on the transition that was taking place and alerting McNamara and his colleagues to the implications of what was happening. But as late as 1981, the IFC was still a negligible player in The Bank Group. It was only loaning $2,563 million a year[37] (less than one half of the Bank's lending volume) in an organization stressing high-volume lending and the public sector.

[36]McNamara's perception of the presidential election in November 1980 was that "the vote had been one of selfishness.... He added that there is currently a very strong movement in the U.S., the UK and Japan towards selfishness for preserving not only their respective shares but also their absolute levels of wealth and wellbeing." President's Council Meeting, November 10, 1980, WBGA. This statement seems consistent with our characterization of McNamara as a global liberal. Given his ideological commitment, one could hardly expect him to have a long-run, historical perspective on the transition that was taking place.

[37]IFC Annual Report [1981].

Administratively, the IFC was outside of the ruling elite at The Bank and even if it had sent dire warning signals, they probably would have been ignored [IFC Annual Report, 1981].[38]

In the Aftermath of Charisma, 1981-1987

As of 1981, President McNamara retired and banker A.W. "Tom" Clausen (1981-1986) took his place, but in reality the organization was still McNamara's bank long after he left. The cadre of officers that McNamara had brought into power -- including most prominently Senior Vice President for Operations Ernest Stern -- continued to run the organization. The McNamara values continued to dominate The Bank's culture. Even if President Clausen had been a dynamic leader deeply involved in The Bank's day-to-day development, he would have been unlikely in the short-term to have been able to give the organization the reorientation it needed. As it was, Clausen left most of the The Bank's operations in the hands of its professional staff, and in particular the experienced hands of its Senior Vice President for Operations. Now a larger organization with a more formidable staff, The Bank in a sense turned in on itself in the post-McNamara era. No longer driven from the top, the process of innovation slowed and lending activity leveled off -- even as the organization's staff continued to grow. Between 1981 and 1987, the staff grew from 5,616 to 6,499, prompting new criticisms from

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[38]As McNamara noted in 1979, "...IFC's program was not yet sufficiently integrated with government development strategies and Bank and IDA programs." President's Council Meeting, July 2, 1979. In the aftermath of McNamara's presidency, the International Finance Corporation appears to have experienced an epiphany. Under the executive vice-presidency of Sir William Ryrie (1984-1993), the IFC became a more active, less in-grown, more effective organization. Had this transformation taken place in the 1970s and had McNamara been more interested than he was in the IFC, The Bank could perhaps have accommodated to the conservative drift in the global political economy more quickly. For an example of the manner in which the organization handled negative information see, for instance, the discussion of "Critical Press Articles on the Bank" in President's Council Meeting, December 3, 1979. Both in WBGA.

outside.[39]

The activities of the environmentalists would grab most of the headlines during these years, but it would be the conservative challenge that would in 1987 finally prompt another round of structural change. This would follow a series of developments that added to the widespread criticism of the organization. The debt crisis of 1981-1982 left the economies of the developing nations reeling and forced The Bank to concentrate less on long-term aspects of development and more on the short-term need for structural adjustment loans.[40] The well-documented problems of The Bank's agricultural programs in Sub-Saharan African overshadowed the accomplishments in South Asia [World Bank, 1989; Payer, 1983, pp. 791-813; Alkali, 1989]. Meanwhile, the knowledge that an increasing number of Bank-supported projects were not yielding the anticipated returns further weakened the organization's ability to defend itself.

When Clausen left office in the summer of 1986 and was replaced by ex-Congressman Barber Conable (the Reagen Administration's choice for the post), the stage was set for a third reorganization of The Bank. Judging by the brief history we have sketched, the fundamental source of the 1987 restructuring was not a breakdown in the day-to-day operations of the organization. Indeed, The Bank's Senior Vice President for Operations had been doing a commendable job of keeping the organization going under the difficult conditions created by the global debt crisis. What had broken down in this last phase of the McNamara era was the ability

[39]"Human Resources Annual Data Review, 1981-1987," WBGA. There had for many years been criticism of The Bank's generous compensation system. See, for instance, President's Council, Minutes, January 3, 1979, WBGA.

[40]For identification of the adjustment problems as short-term see the President's Council Meeting, August 6, 1979; and September 24, 1979. See also Baum [December 11, 1980] for a detailed discussion of the stress between the two functions. All in WBGA.

of the organization to read the threatening signals coming from its environment and to respond to these signals creatively. The Bank stayed on course and in fact made itself more vulnerable to attack by allowing its staff to outgrow its lending activity.

The Bank's third reorganization in 1987 was prompted by both structural-functional and cultural factors. In this case, however, the structure whose efficiency was in question was that of the entire public sector, not The Bank itself. There was to the conservative movement a powerful ideological component, and this new cultural setting was hostile to the basic values of The Bank. The organization's major problems at this time stemmed not from the failure of McNamara's Bank, but from its successes as an innovative organization. That success planted the culture of global liberalism so deeply and left its devoted cadre of adherents so powerfully ensconced that the organization's future was at risk.

Reflections

In this present article, we have looked at two major cycles of innovation in the history of The Bank. The first, the McCloy/Black cycle, involved an organization with considerable cultural tension, mediated by a shared culture of social mission. The decentralized structure and collegial atmosphere of The Bank enabled the organization to function effectively under these conditions and to remain creative. A market constraint and its associated banking and technical values held in rein a social mission ideology that might otherwise have led the institution to take on more than it could accomplish.

In the first phase of the McNamara cycle of innovation, The Bank's resources and sense of mission both experienced a phenomenal expansion. The new culture of The Bank -- like the personality of its powerful president -- overrode important elements of the organization's older cultures. In this dynamic organization, the process of innovation came from the top down. During this cycle, The Bank greatly extended its influence throughout the Third World, reaching ever deeper into the socio-political affairs of the countries to which it extended loans.

Under McNamara's leadership, The Bank developed a cultural consensus that made it difficult for the organization to read certain kinds of danger signals. Under less forceful leadership after 1981, The Bank steamed along on the course McNamara had charted -- while the tensions between the institution and important elements in its environment steadily increased. The first structural accommodation to those tensions was the reorganization of 1987. While that reorganization achieved one of its explicit goals (downsizing), it did not generate a new and compelling sense of mission for the organization. Nor, it seems, did it ensure that The Bank would in the future read and respond to the changes taking place in its relevant environments more effectively than it had in the past. In those regards, The Bank still awaited the leader of what could be its third cycle of innovation.

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