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Banking on the Poor (Book Review)

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Book Reviews

by Russell Maatman

Banking on the Poor, by Robert L. Ayres. Cambridge, MA, The MIT Press, 1983, 282 pages, \$7.95. Reviewed by Edward Lotterman, Instructor in Economics.

In its nearly forty years of existence, the International Bank for Reconstruction and Development (IBRD or World Bank) has changed from a modest agency largely designed for the rather limited purpose of facilitating European post-war recovery, to a major institution which serves as the primary conduit by which resources are transferred from rich to poor countries. Though this change was well under way by the late 1950's, the World Bank as we know it today was largely shaped during the thirteen years from 1968-1981 when it was headed by Robert S. McNamara. *Banking on the Poor* is an examination of the policies and activities of the World Bank and how they evolved under McNamara's leadership.

Some of the changes were very visible. Total loans outstanding increased from \$13 to \$92 billion between 1968 and 1981. Even after adjusting for inflation, this was a five-fold increase in activity. Total staff increased from 1600 people to 5200, but these increases in physical size were less important than the changes in the Bank's strategies. Prior to 1968, the primary objective was to foster economic growth. The method of achieving this goal was to lend money for building infrastructure—some 80 percent of all IBRD loans went for transportation or electric power facilities. By the mid-1970's the primary objective was alleviating absolute poverty, and lending was increasingly targeted on agriculture, rural development, health, and housing projects.

The wisdom of this shift in strategy, and the degree to which it was successful, remains a subject of debate in international development circles. U.S. conservatives harshly criticized the McNamara initiatives for encouraging "socialistic" and anti-free market trends in the developing world. The World Bank in general was viewed as being too independent of U.S. foreign policy and too helpful to governments which were unfriendly to the U.S. One of the Reagan administration's earliest moves was to announce that less U.S. foreign aid would be funneled through multi-lateral agencies such as the World Bank, and more through traditional bi-lateral

channels where it could be used directly to advance U.S. foreign policy goals. At the same time, the Bank continues to be condemned by many leftists as an institution designed to maintain global inequalities by co-opting opposition and defusing potential revolution. Its close ties to Western financial institutions, the dominant influence of the U.S. in its administration, and the "conditionality" of its loans are cited as evidence of its orientation toward preserving the existing international status quo.

Ayres strives to find a moderate middle ground between the critics on both the left and right. His viewpoint is that of a "cautious reformist." In examining the Bank's theory and practice, he finds many deficiencies and failures but concludes that on the whole the Bank played an important and positive role in international development in the 1970's.

The book is essentially divided into three parts. The first three chapters provide a preliminary overview of the material to be covered, sketch a brief history of the Bank, and outline the major political and economic constraints on its activities. The second part describes the theories of "poverty alleviation" and "redistribution with growth" which came to the fore in the early 1970's, and continues with detailed examination of rural and urban poverty projects carried out by the Bank. An entire chapter deals with "The Politics of Poverty-Oriented Projects." The final section, a single chapter entitled "The Bank after McNamara," suggests directions the Bank, and development agencies in general, might take during the rest of this century.

Banking on the Poor is a well-written and readable book. Though Ayres is a political scientist, he manages to avoid using specialized jargon from any particular discipline. Nor is any extensive knowledge of economic theory required to understand the actions and policies described in the book. It can be read and understood by any intelligent layperson who has kept abreast of current events over the last decade. The key question is not who *can*, but who *should* read this book. It is a specialized work which might be appropriate for a

graduate seminar in development policy, but is too narrowly focused for a general undergraduate course in economic development. Laypersons who want to know more about current issues in economic development would be better advised to read one of the Brandt Commission reports, *North-South* and *Common Crisis*, or a good text such as Michael Todaro's *Economic Development in the Third World*.

Banking on the Poor would be valuable reading for directors of church-related and private voluntary organizations engaged in development activities. Often such administrators have grass roots experience on mission fields, but little knowledge of development theory

or practice at the macro level. In the past, large national and multilateral agencies such as the World Bank tended to ignore small religious and private development agencies. As Ayres points out, there is great potential for fruitful cooperation between large public institutions and small private agencies. Leaders and members of groups concerned with promotion of public justice in international affairs will also find the book useful, but they should be forewarned that it presumes more than a passing knowledge of international development problems and issues. In summary, it is a well-written, useful book for a limited audience.

Common Crisis North-South: Co-operation for World Recovery, by the Brandt Commission. Cambridge, MA, MIT Press, 1983. 174 p. \$4.95. Reviewed by Edward Lotterman, Instructor in Economics.

Books written by committees or blue-ribbon commissions tend to have serious limitations. *Common Crisis* is no exception to this rule. Its prescriptions for change in the international economic order often are generalities which most intelligent people would readily support, but which are extremely difficult to implement in pragmatic political terms. Most readers will agree that developed nations should not enact more strenuous tariff barriers to imports of Third-World products. Neither should men beat their wives. The difficult part of either case is not setting a noble goal, but rather finding practical ways of achieving it. Nevertheless, this book is very useful and should be read by many Christians who are concerned with justice in the international order.

Common Crisis is a successor to the earlier Brandt Commission report, *North-South, A Program for Survival* first published in 1980. Readers familiar with that work will have a good idea of both the viewpoint and topics of the second. For those unfamiliar with the Brandt Commission, a brief bit of history is in order. The Commission was organized in late 1977 by former German Chancellor Willy Brandt with the task of studying current international development issues and presenting recommendations to the world community. The commission was made up of twenty international dignitaries including five former heads of state and thirteen former ambassadors or government ministers. Eleven were from developing countries; nine, including Brandt, were from developed countries. Only the USA had two representatives, Katharine Graham, publisher of the *Washington Post*, and Peter G. Peterson, Secretary of Commerce in the Nixon administration. The Commission convened periodically over the course of two years and in 1980 issued its first report, *North South*. That work examined the most pressing development issues of the late 1970's including food, population

growth, commodity trade, energy, transnational corporations, and development finance. It also issued a number of general and specific recommendations to the world community. One was a call for an international summit meeting of world leaders representing the developed "North" and the developing or less developed "South." This recommendation was fulfilled in the international conference held at Cancun, Mexico, in mid-1982. Unfortunately for the Brandt commission, the most tangible event at the Cancun conference was President Reagan's and Prime Minister Thatcher's rather blunt announcement that most of the other commission proposals were simply out of the question from the point of view of the developed countries. In the three years since Cancun, the economic situation of many developing countries has worsened due to the global economic recession and to the increasing constriction of servicing external debts. Though there has been no substantial effort to re-open multilateral talks between rich and poor nations, *Common Crisis* is an effort by the Brandt Commission to keep these issues before the international community.

It is a shorter work than its predecessor, 174 pages of large type as opposed to 304 pages of small type in *North-South*. *Common Crisis* also deals with a narrower range of subject matter. The first chapter reviews earlier Commission proposals and summarizes world events over the intervening years. The second chapter, dealing with international finance, is the heart of the book. Clearly the international debt crisis and the domestic effects of International Monetary Fund loan conditions are the most pressing politico-economic problems in the third world today. *Common Crisis* generally advocates greatly increased "soft" lending on the part of developed nations and multi-lateral agencies with much less stringent conditions placed on these loans. Shorter subsequent chapters deal with trade and