

# On the World Bank as an Agent of Economic Imperialism

By

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of a Master of Arts degree  
in International Development Studies*

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Halifax, NS

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*Abstract*

**“On the World Bank as an Agent of Economic Imperialism”**

By Rebecca Eve Rolfe

After more than 60 years of ‘international cooperation for development’ (foreign aid) the results have been negligible. Given this momentous and continued failure of the global war on poverty, led by the World Bank, this thesis raises and addresses serious questions about the dynamics of the World Bank-led campaigns aimed at redressing the problem. It is argued that the World Bank’s stated agenda of fighting poverty is an ideological cover for its hidden agenda to advance powerful economic and geopolitical interests of the United States, that is, the World Bank in effect is organized as an agency of U.S. imperialism.

This thesis explores the political economy of the World Bank’s War on Poverty through the application of development aid and investment, and resulting debt and capital repatriation, with special focus on the nature of the imperial state. Evidence is provided to support the argument that the World Bank’s ‘war on poverty’ is ineffective in reaching the targets set forth in the Millennium Development Goals precisely because poverty alleviation is not its main concern or real agenda. The policies that the World Bank has espoused in the name of ‘globalization’ and ‘development’, in the guise of ‘international cooperation for development’, have advanced the interests of powerful economic and political interests within the U.S. imperial state rather than the world’s poor. It is argued that this is not incidental but rather a reflection of the imperialist agenda behind the World Bank’s policies.

December 15<sup>th</sup>, 2008

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# Introduction

After more than 60 years of development via enormous financial resources and economic growth-driven policies aimed at poverty reduction, the results have been negligible and it could even be argued that development aid (or Official Development Assistance) under conditions prevailing in the global economy has, if anything, perpetuated the conditions of poverty and inequality. For many advocates of development, aid delivered through prominent International Financial Institutions (IFIs), a necessary (but certainly nowhere near sufficient) condition for poverty reduction is engagement in the global market where the benefits from globalization and other free-market instruments purport to advance the process of redistribution. The problem with understanding how international or 'global' agencies and drivers of the international economy relate to the presumed goal of poverty reduction is that the actions and policies required for poverty reduction are generally in conflict with the national interests of the United States: the prevailing super-power on the global stage. The issue becomes how to reconcile the national interests (which the US state is bound to relentlessly pursue) and the concern in the global 'development community' to reduce the pervasiveness and disastrous conditions of global poverty. Often enough this presents somewhat of a paradox where the motives of aid donors and political directives are viewed as being inapplicable to effective poverty reduction within the historical and current contexts of American power.

As a central agency of 'development', the World Bank claims to be an institution dedicated to serving as a catalyst for innovative market-based solutions for reducing poverty. However, extreme poverty and global inequalities persist now more than ever. In



the first years of the 21<sup>st</sup> Century “over half of the world’s population (52.8% or 2.7 billion people) lived on less than US\$2 a day” (World Bank, 2004a: 3). Despite the most favorable predictions for economic growth by the World Bank and others, they confess that 2.1 billion could remain trapped in extreme poverty by 2015 (World Bank, 2004b: 11); the same time frame given by the Millennium Development Goals to cut extreme poverty in half. Evaluating definitions, measures, programs and policies aimed at the reduction of pervasive global poverty in a globalizing economy must consider the power dynamics of domination over the ‘development’ paradigm. The World Bank continues to insist that economic growth is good for the poor, and other international financial institutions require the institutionalization of what are known as neoliberal economic policies which include liberalized financial markets, a reduced role of government with mass privatization of state institutions, and free trade as conditions in order for countries to meet eligibility for aid loans. These measures are typically part of what are called Structural Adjustment Programs (SAPs). But in spite of massive resources and the ‘failure’ of the World Bank’s War on Poverty, the present work will get at the root of the false dialectic, where on the one hand, aid is intended to fight poverty, and on the other, the results of anti-poverty strategies suggest the opposite intent.

With these considerations in mind, the problematic of this thesis is to “provoke serious questions not about the nature of the problem of poverty, which has been thoroughly understood in great detail, but about the dynamics of the Bank-led campaign that seeks to deal with it” (O’Malley & Veltmeyer, 2006: 287). New approaches to this problematic are imperative for development analysts and practitioners to determine whether the true causes for these failures at poverty reduction strategies are due to chance

or design. This thesis does not argue that World Bank development policies are the only vehicle employed to advance the Imperial Grand Strategy of the United States in the 21<sup>st</sup> century. Nevertheless, there appears to be a special role for international financial institutions as conduits in the shaping of development practice and thinking within the wider historical advancement of capital; capturing values, social change and new forms of social relations and forces of production significantly similar and yet distinct from previous structures.

The correlation between issues of poverty and growth notwithstanding, the problem of ‘development’ is that it appears to achieve the antithesis of what it sets out to do. If indeed structural economic and political determinants are responsible for creating the problem of poverty (and perceptions of them) then structural change is required to overcome them. That is, while it has failed in reducing poverty, it seems to have succeeded at strengthening the structures and institutions that ensure the continuation of global inequality. If one begins an institutional analysis of the World Bank from this point, then one may be better apt to understand how the Bank advances American imperialism from the platform of economic development and modernization; and through capital export for foreign investment. There exists a real need, in light of this quagmire, to challenge the prevailing postulates on the official mandate of development and the ‘war on poverty’ as directed by the World Bank Group and its affiliates. Can poverty reduction and inequality measured by indicators other than those defined by the ‘donors’ of aid meaningfully be expected, and indeed achieved, within the context of imperial state driven global capitalism? Would equality be counter to the logic of that expansion and subsequent concentration?

The real tragedy of inexorable poverty in a world of plenty cannot be understood apart from the social and historical structures by which it is formed, and within which it interacts. In modern society, the shift from explicit authority relationships to more subtle forms of power and galvanization become the preferred types of control. Just as important as military command and aggression, growing structural integration of dominant institutions create social processes where the answer to the goal of poverty reduction as perceived by the poor, tends to mimic the rhetoric of western ideology. ‘Developing’ countries are now caught in a cycle of power imposition, where influence shifts from coercion and authority to manipulation, from the overt to the covert, and from the obvious to the subtle. Power and influence is about negotiating the acceptance of domination – and the legacy of development aid is a glaring example of the exercise of this capacity.

Orthodox Marxist analysis asserts that capitalism as a social order has a pathological or dysfunctional expansionist logic, since to maintain profits capital must constantly exploit new markets and resources. Therefore, the present epoch is described by many Marxists not in the language of globalization but instead as a new mode of state imperialism (or the monopoly stage of capitalism). It is useful to investigate who develops the tools of development, and also who benefits from their deployment. Some argue that it is the rich countries that benefit in the long run through their control over various legal and regulatory trade policies with obligatory conditions imposed from the top-down. By understanding the international legal and regulatory mechanisms that control economic ‘globalization’, one can come to a better understanding of why certain countries benefit from changing global conditions, while others are increasingly exploited and impoverished – despite rising levels of ‘aid’ and accompanying foreign investment.

The concept of development has been structured within a particular set of Western intellectual traditions, characterized by free trade democracy and market capitalism as the pathways to poverty eradication. A more probable explanation for “the apparent intractability of the poverty problem and the failure to win the war against it” according to Veltmeyer (2006) “is a fundamental misconception as to the nature of the problem and willfully misguided practice” (pg. 264). The exercise attempts to draw from an institutional analysis of World Bank poverty reduction programs to locate the praxis of an otherwise ‘global institution’ firmly at the service of US economic interest and capital expansion. The context within which this evaluation of the problem of development occurs is after many years of so-called ‘failed’ policies while at the same time, one in which the gap between the rich and poor has widened and shows no sign of rescinding. While the United States is an unchallenged superpower in every sense conceivable, the World Bank succeeds at completing projects revealing the opposite result of what it purports its mission to be. What is the relationship between these two realities?

This thesis will follow the argument that the World Bank’s stated agenda of fighting poverty is in conflict with its unstated project of advancing the economic power and control, or imperialism, of the United States’ global capitalist system. Evidence will be presented for both elements of this argument, constituting a falsification of the former via an investigation into the latter. Under a growing and pervasive system of imperial capital expansion, development and poverty reduction through policies of economic growth have appeared to paint a clear picture. Is it more likely that the World Bank has been failing to reduce poverty by mistake or is their ‘failure’ part of strategic foreign policy in a global economy comprised of institutions controlled by the United States?

Would it not be outside the realm of possibility that the World Bank is in fact working as a representative of economic imperialism disguised as a war on poverty? Political and economic relationships are important, but even more central is to identify and evaluate the mechanisms from which these relationships emerge. In doing so, we can devise a more appropriate explanation for the ‘failure’ of growth based models of poverty reduction. The policies are working fine. They are doing what they are designed to do. This piece will present and analyze evidence in order to substantiate this claim.

This thesis will contribute to the body of scholarship surrounding the changing face and nature of development and its role in the creation of full spectrum economic dominance in the 21<sup>st</sup> Century. Further and more importantly, I want to offer a different view of how international institutions like the World Bank may use the idea of development to implement goals counter to the stated intention of their work. The present study critically examines the premise of the work of development both in fact and in value. It will offer a new contribution to development studies by looking at how the processes of state imperialism are carried out by International Financial Institutions like the World Bank based on policies (of purpose based on rational principles) that benefit the United States and its *Pax America*. To strengthen this relationship, the example of how the US runs a balance of payments deficit while encouraging other countries to run a surplus will be explored in later sections. How does this work to the favour of the US through the structure of development assistance?

If poverty is a consequence of aid, how then is aid continually justified to alleviate poverty while relying on the same economic structures and policies that gave rise to the ‘failure’ of development aid in the first place? Is the very act of development an

expression of imperialist mandate? Whereas the magnitude of poverty (and its sources) have been studied, and where there is little disagreement, the World Bank and its friends continue to do the same things (more or less) that have failed to reduce poverty and supposedly expect a different result. But we are hiding under a faulty syllogism. Our perceptions of poverty rates and trends are often dependent on the model of analysis used to explain them. That is why the centrality of imperialism to the debate on economic globalization through global institutions, poverty and development in the 21<sup>st</sup> century cannot be overstated. State imperial power takes the form of an agenda, an integrated series of well thought out policies and imposition of an economic ideology through structural means. The dominance of neo-liberalism as the predominant development paradigm is illustrated not through solitary acts per se, but through a policy regime. The globalization of these processes is an element of the imperial project. The central influence of imperial state power over global institutions like the World Bank throughout the rapid deployment of new techniques of poverty reduction has a negative implication for meaningful reductions in inequality. If the goals of the World Bank, International Monetary Fund, and the World Trade Organization were to alleviate poverty – even according to their own monetary based definition of the term – their policies have failed to do so.

The link between the two dominant pillars of development of economic development and poverty reduction (insofar as they are often seen as mutually exclusive) can be seen as a starting point for locating some of the ways in which neo-liberal discourse has created irony in the myth of development as ‘progress’, as has been evident through a history usually categorized by dependence on the global economy and the

lowering of labor and environmental standards to attract foreign investment in industry. Indeed in this situation it is easy to predict the winners. There are numerous duplicitous commitments involving development aid assistance such as World Bank support for extractive industries in Sub-Saharan Africa and other places, producing little evidence that such initiatives have contributed to poverty alleviation. The World Bank maintains that extractive industry leads to economic growth, and therefore poverty reduction.

The objective in this investigation is to use an institutional analysis of World Bank structure and agency, and to test through a variety of ways whether its stated objectives of improving living conditions for the world's poorest are intended to reduce poverty, or whether it operates under a set of unstated goals to further advance the strengthening American imperial control over the economic rules and agencies of development. This exercise will be less about the nature of the end phase of capitalism *per se*, but more of an investigation into whether and precisely how the process of Empire building through state imperialism both affects and is affected by the agency of International Financial Institutions like the World Bank Group. Gaps and ambiguities in literature will be addressed, explaining the need for this new approach in new spatial and temporal contexts. This task is exceptionally necessary in the context of less developed (or underdeveloped) countries where development and 'assistance' itself has often led to increases in poverty and dependence on the controlled global economy through recycled economic modernization and adjustment paradigms and strategies supported by imperialist methods of progression.

This thesis will also contribute to the academic debate on the nature of development as it occurs under conditions of imperialism driven under the label of some

wholly new process of magnanimous globalization. The infamous position of weakened national governments reflects a narrowed capacity to effectively evaluate and address the poverty caused by these processes. With that in mind, my personal motivation for the current inquiry or critique of development practice stems from an understanding of the deliberate and purposeful project of development and how models proposed to fight poverty within a global capitalist imperial system, should by the very basic tenants of capitalism, fail miserably. Benefactors of this work might include, but would not be limited to, students and educators in the field of international development studies as well as others seeking an alternative construct for evaluating the project of development. For those in the west studying and working in the field of development, this work can contribute to the debate at the centre of how, and for what ends, development agencies operate. The scope of temporal reference herein will be limited to that following the institutionalization of Bretton Woods both during and after WWII.

To understand development within a particular context in human history, we must first conceive of development as being whatever the most powerful decision makers in society say it is, and the ease with which an overarching monetary and moral philanthropy can be offered over what seems to be, in the final analysis, only reflecting specific interests. I will first provide evidence to falsify or disprove the assertion that development aid from the World Bank is effective in reducing poverty (working within a wider analysis of the procedures of development as practiced by the World Bank), and secondly, to advance and support the claim that the World Bank is instead working to fortify US economic imperialism. Emphasizing structural causes of the ‘development crisis’, where the crisis refers to the persistence of our collective false consciousness towards the project



of development as imperial in nature, highlights the fact that it must create and exploit class divisions.

The concept of development has become a normative battleground for various ideologies and notions of poverty reduction strategies and aid, simultaneously being encouraged and thwarted by experts of opposing concerns. Many experts and planners from within the Bank admit that development assistance has been largely ineffective in reducing poverty. Many more argue that it has in fact succeeded in doing the exact opposite of what it set out to do – but not on purpose. So it seems we are hostage to a paradox. Is it more likely that policies are failing to reduce poverty because of untimely implementation of economic restructuring, or might it be within the realm of possibility that the World Bank is failing to reduce poverty on purpose? If this can indeed be substantiated, might it also be within the sphere of possibility that it is indeed working towards a purposeful end counter to that which it has declared? This is the likely failure of our construct of development: we believe that the World Bank intends to reduce poverty through policies aimed at economic growth. If we can no longer conceive of development aid as being purposefully active in the reduction of poverty, we can work towards a potential revealing of the relationship between the World Bank and American Imperialism that prevents the Bank from being effective in that regard.

The nature of development thinking and practice can be described by a series of shifts and schisms throughout recent decades, with each occurring within specified historical contexts from where it is impossible to abstract. A purely systems view fails simply because of its inability to perceive the system as being structured by conditions outside its control in the form of decisions and measures made and implemented over

time. Trends in development practice and result from a growth based model of poverty reduction have given rise to some puzzling conclusions, from the economic growth approach to poverty reduction to the development dynamics of foreign direct investment. If development is both a process (from the structural historical conditions of capitalist development), as well as a project (applying strategic objectives within the system created by the aforementioned structural transformation), than the nature and function of imperialism through the poverty fighting operations of the World Bank, can be viewed from the same position. There are always people behind 'development'. But a structural perspective sees individuals as playing their prescribed roles within the system, and is more critical of the structure of that system, which is also based on structural transformations for growth.

Chapter II will advance a number of definitions and descriptions of key concepts and central debates surrounding economic growth and poverty reduction. Some of the essential thematic areas to be considered include speculations on economic growth and development, the definitions and measurements applied to poverty, the application of 'development aid' to poverty reduction, and a discussion on the language and discourse surrounding, 'effectiveness', 'success' and 'failure' of World Bank poverty reduction programs and initiatives through the Banks' knowledge transfer on its 'war on poverty'. This section of the thesis will provide some perspective of the Bank's ideological and programmatic prescriptions that are said to reduce poverty through economic growth.

Chapter III offers both a theoretical and methodological *inter mezzo* by illuminating the landscape of debate surrounding the economics of imperialism as part of an economic imperative to expand and consolidate at the international level. Arguments

surrounding the nature of imperialism, its economic base, as well as the role of the imperial state versus ‘globalization’ (which removes political accountability within the global economy) will be offered and appraised to furnish a transition to the next chapter on the effects that capital export in the form of aid and foreign direct investment has had on global poverty over time. In discussions on the imperiled state, focus will be reemphasized in the areas of capital export, the role of banks, the system of international loans outlined primarily by Rosa Luxemburg, and the centrality of the development of infrastructure necessary for the productive use of capital export for investment.

The export of finance capital will take center stage as the central tool of capital accumulation and necessary dispossession at this advanced state of capitalism piggybacking on ‘development’. Unlike Imperialism, the concept of power is value dependent, in that its definition and use are linked to a set of value assumptions which predetermine the range of its empirical application. Constrained by these limitations, conceptual and operational issues explaining the political and economic structure of imperialism as it relates to the specific political strategies and economic necessities of capital export for development aid, provides a much sounder foundation for analysis. Through this distinction, this research can provide a timely and creative addition to existing evidence for continued manipulation and exploitation of the poor by the World Bank, in service to a monopolized American economic power.

Chapter IV will employ a structural and historical institutional analysis of World Bank policy and agency in order to evaluate whether the War on Poverty has been at all successful in meeting targets of the first MDG of reducing extreme poverty and hunger in half by 2015. It addresses the policies and implementation of privatization, market

liberalization, production for export, reduced social spending, and other specific ways in which economies are transformed under ‘adjustment’ loans and ‘aid’, while also looking forward to potential political-economic paths of money and people in the accumulation of capital transferred back to the West through the World Bank in the form of debt dependency. The balance of literature and quantitative analysis of data to complement qualitative contextual analyses of development assistance programs in Chapter IV will be laid out under clear structural parameters – recognizing specific patterns of imperial expansion and exploitation for capital consolidation. Data and analysis presented in this chapter will be supported by three case studies including adjustment and the current global food crisis, privatization of water, and US-driven ‘reconstruction and development’ in Iraq with the help of the World Bank.

Where it is more obvious to locate the mechanisms of imperial control through direct bilateral aid from country to country, an investigation of multilateral aid and the intentional application of the international loan system can offer a challenging exercise for indicating the goals and priorities of US foreign economic policy employed through ‘development’. It is these programs through which the US requires the World Bank to act as an agent of imposition of and integration into the global economy controlled by national political and economic interests, revealing that the World Bank therefore holds two opposing objectives: to secure profitable private investment opportunities for shareholders and to eradicate poverty. Both the second and third chapter review key theoretical concepts and ideas that will help inform the discussion of poverty reduction programs as related to economic imperialism to be elaborated upon in the fourth.

Chapter V will look at some of the more nuanced connections, motives, relationships and institutional mechanisms that in fact exist to ensure US corporate and political benefits from the investment of finance capital through both aid loans and subsequent FDI to developing countries from the World Bank. A discussion of ‘reverse aid’ in the repatriation of capital from the South to the North will occupy significant space within a structural approach to an institutional analysis of the World Bank as an agent of US economic imperialism. It will conclude by reviewing the perceptible success of World Bank development aid in its intended objectives, those which it will only further realize through increased loaning for ‘poverty reduction’.

After a historical discussion of imperialism and poverty reduction policies delivered through the World Bank favouring profitable investment opportunities and creating massive debt, the analysis of the World Bank will move to address how American economic primacy is exerted through the structure and agency of those programmatic tools with the stated objective of poverty alleviation for the World’s poorest people. Following from the early administrative structure of the Bretton Woods Institutions under US design, the fifth chapter follows from this by exposing some of the reasons why the World Bank matters to the United States and both the political and corporate interests pervasive throughout World Bank policy design and implementation.

The final section will provide a review of chapters and conclusion to the analysis in Chapter V that the failure of the World Bank to reduce poverty is not a matter of faulty implementation of aid loans by recipient countries. Rather, the World Bank is an effective conduit for American economic imperialism and aid is indeed working successfully towards its real intended goals. This thesis is concerned then, not necessarily in “the

problem of poverty, but the failure to redress it” (O’Malley & Veltmeyer, 2006: 288).

This ‘failure’ is necessary for aids’ success.

Providing a historically informed framework for an institutional analysis of the World Bank first requires historical inquiry into the organizational, social, cultural and political context surrounding its inception. Chapter I will present a comprehensive overview of the Bretton Woods Conference and the resulting institutions which led to the formation of The World Bank Group, outlining the organizational structures and said functions of its agencies. The resulting frame of reference from this review in the first chapter will partially form the background for the present exercise, informed by the necessity to fully understand the donor agenda.

## Chapter I:

# Birth of a Tragedy

This chapter offers a comprehensive overview of the Bretton Woods Conference and the resulting institutions which led to the formation of The World Bank Group. The aim is to take a close gaze into the organizational structures and primary said functions of its agencies. The political and economic project of ‘reconstruction’ prevailing after the Second World War is a key vantage point for contextualizing development aid as residing at the centre of a particular set of drivers and influences. The chapter will go on to highlight the apparent shift in the Bank’s operations and mandate away from strictly infrastructure development and reconstruction after WW II, and towards communist containment, economic development and ‘poverty eradication’ – signifying a deeper function for International Financial Institutions (IFIs) in the governance of other countries even before the official end to colonialism, and certainly long after it. Following this, the focus of the Bank then fell towards investment-related and other conditions that the loaning of aid required, including economic policy reforms and privatization directed at raising productivity and export capacity.

Attempts to reposition Bank lending away from reconstruction in the post World War II era (as well as implementing new ideas of ‘exporting growth’) will be evaluated as they relate to ‘free trade’ and market oriented mechanisms for economic expansion and the prevailing political interests that underwrite such initiatives. Research should answer a question or paradox about the causation or the consequences of a particular phenomenon.

So, prior to embarking on a significant analysis of World Bank project objectives (stated and otherwise) and poverty reduction appraisals, it is absolutely necessary to commence any such investigation with due attention to the prevailing political and economic conditions which gave rise to them – as embodied in nation state structures.

Since its inception, the World Bank has lent money and provided grants and credits worth over \$400 billion. But, in fact, early drafts of what the Bank would embody did not make reference to development financing. Rather, rationales for a narrow focus on physical infrastructure emerged in early Bank writings. *The Eleventh Annual Report (1955-56)* stated that “...most of the Bank’s loans are for basic utilities...which are an essential condition for the growth of private enterprise” (Adams, 1993: 32). The focus on private investment is also echoed in the Bank’s Articles of Agreement. The vision of a global mechanism from which to administer and manage global trade through the Bretton Woods institutions failed under the International Trade Organization (ITO), but was reborn under the General Agreement on Tariffs and Trade (GATT), and reinforced the role of international aid agencies in delivering the gift of poverty reduction. A logical point to begin an introduction to the work of the World Bank would be to review various systems of reform to the global capitalist economy before and after World War II, and clearly directed by the United States government.

### **Political and Economic Conditions Preceding Bretton Woods**

A particular set of political and economic factors predating and ensuring opportunities for the establishment of a global economic system of trade and ‘development’ favouring US style ‘free market’ capitalism were at hand prior to the Second World War. To be sure, no element of the evolution of capitalism has been by accident or coincidence. The Monroe



Doctrine issued in 1823 became a clear ‘domestic’ precursor to later examples of regional economic hegemony based on careful coercion and unyielding authority over the affairs of other countries within the Western Hemisphere; through consistent military interventions in central America and the Caribbean throughout the 1980s and 1990s (Lake, 2006), and sanctioned by the announced moral right of the US to intervene when it pleased. In fact, talk inside the US government preceding 1942 echoed the need for a ‘Currency Stabilization Fund’ and a ‘Bank for Reconstruction’ (Adams, 1993). Even before the Second World War ravaged most of Europe, the US imagined an international economic system open to the flow of capital and trade, penetration of foreign capital for investment, and production of resources by US corporations. The Atlantic Charter, for example, drafted in a 1941 meeting between US President Roosevelt and British Prime Minister Winston Churchill provided a significant precursor to Bretton Woods.

The idea of economic security for the United States was a major motivating factor in the establishment of the Bretton Woods institutions for international lending, trade and investment. Such a system, it was believed, would be the fastest and most prosperous to world peace – a world without war; and it was sold as a system to be driven by *laissez faire* market capitalism. Across the Atlantic in England, Lord Maynard Keynes, author of the quintessential macro economic text *The General Theory of Employment, Interest and Money* (1936), argued contra wise (but only superficially) that government intervention in the market is vital to the structured functioning of capitalism. This apparent disagreement between the balance of government and the ‘free market’ during post World War II development economics would be critical in the establishment of the Bretton Woods

System, certainly insofar as exchange rates were set according to the performance of the US dollar.

### **The United Nations Monetary and Financial Conference at Bretton Woods (1944)**

During the first three weeks of July in 1944, US President Franklin Roosevelt convened 44 nations together at Bretton Woods, New Hampshire, where “delegates met to discuss the post-war recovery of Europe, as well as a number of monetary issues such as unstable exchange rates and protectionist trade policies” (Government of Canada, 2007). As a result, convertible currencies were established with fixed exchange rates to the US dollar and free trade was heralded as a remedy for creating ‘balance’ and prosperity in the world after the war. Preliminary objectives for the conference were actually drafted at a meeting in Atlantic City in June of 1944. Chief International Economist at the US Treasury Department Harry Dexter White devised a plan for the International Monetary Fund at the time dubbed ‘The White Plan’, while John Maynard Keynes was drafting a competing plan for post-war reconstruction in England. Keynes was subsequently chair of the Bank Commission that later laid the groundwork for the International Bank for Reconstruction and Development.

For White, two options presented themselves for the United States in a post-war economy: “continue federal government spending at near wartime levels or stimulate the expansion of international trade to create new markets for American goods. He advocated for the latter” (Craig, 2004: 140). While Keynes saw the IMF as providing a balance to American power, White fought for an “adjunct to American economic power, an agency that could promote the balanced growth of international trade in a way that preserved the central role of the US dollar in international finance” (Boughton, 1998), placing the dollar

and its ties to gold at the centre of the global economy. The dollar became the foundation on which the system of international trade, finance, and eventually ‘development’ was based. Although Keynes played an instrumental role in the economic planning of the Bretton Woods Institutions for post WW II economic reconstruction in Western Europe, they were essentially sponsored by the United States. Initially placed inside the US State Department, the IBRD and growing ‘World Bank’ settled in Washington DC, and not in New York, as Keynes lobbied for at the time.

While the World Bank relays that a democratic process ensured all countries a voice in the deliberations, they were dominated by the American and British delegations, and it is no secret that in the final conclusions reached by the Conference, “American views on the whole prevailed” (Ward, 1954: 179). What emerged were “institutions that followed White’s plan and met the interests of first the United States and then its British allies” (Juhasz, 2006: 55), and would allow US multinational corporations, through an investment nest for surplus capital (partly to avoid inflation at home and partly in order to secure returns on those investments), to shape the rules and mechanisms for the international economic system. In his farewell speech at the conference, Henry Morgenthau commented that the establishment of the International Monetary Fund and the World Bank marked an end to economic nationalism. Ward observes that the Bank “was carefully laid down, [and] was in no way to take the place of private international investment” (Ward, 1954: 180). Rather, and quite deliberately, “its chief duty would be to encourage and reinforce it” (ibid.).

US Secretary of State George Herbert Marshall’s June 4, 1947 speech at Harvard University initiated the program for post-war economic recovery of Europe (also known

as the Marshall Plan), leading to the creation of the Organization for European Economic Cooperation (OEEC) in 1948, which later evolved into the Organization for Economic Cooperation and Development (OECD) in 1961. The Marshall Plan, with the help of the existing Bretton Woods Institutions, helped forge an Atlantic Alliance that stretched throughout the period of the Cold War. Between 1948 and 1953, the US spent 2-3% of its GNP on Marshall Plan aid to Western Europe for reconstruction (Thomas & Allen, 2000). Any country accepting aid would have to open their economies to US markets, and likely a significant amount of aid was used to purchase American products. Although actual reconstruction loans from the World Bank only reached \$497 (US) million, the Marshall Plan “became a true engine of the reconstruction of Europe by loaning over \$41(US) billion by 1953” (Wood, 2006). As fast as it was operational, the central role of the Bretton Woods Institutions shifted substantially in only a few years as a result of the success of The Marshall Plan, and refocused their efforts on Western strategic objectives beyond Europe. The Marshall Plan rendered the Bank defunct as far as reconstruction went, and a converted purpose in ‘development’ emerged.

Although significant economic motives existed for enabling this agenda, they were not separate from wider political and strategic objectives. Former Assistant Editor of *The Economist* Barbara Ward stated in 1954 that in spite of extraordinary material achievements (including a return to pre-war levels of production throughout most of Western Europe), “the greatest significance of the Marshall Plan lies in the sphere of social containment” (Ward, 1954: 50), echoing the Truman Doctrine on communist military suppression. In her explanation of ‘effective defense’ as containing more than just military adversaries, Ward categorizes post-war Marshall Plan economic reconstruction

for Europe as the “restoration and maintenance of social unity and cohesion – the building up of sound economies and firmer governments” (ibid.: 46). The doctrine and strategy of communist containment through foreign direct investment then evolved to encompass the motives for development based on economic growth, and was to be directly fostered through these new international organizations.

### **The Structure and Agencies of the World Bank Group**

While a total of five agencies comprise the World Bank Group, the IBRD and IDA typically make up what is referred to as the ‘World Bank’. Officially starting in 1945 and now boasting 185 member countries, the International Bank for Reconstruction and Development (IBRD) supplies loans and development aid to typically middle income countries and, according to the Bank’s website, is “structured like a cooperative” aimed at reducing poverty (World Bank, 2008a). Lending for 118 new projects in 37 countries reached US\$13.6 billion in the 2005 fiscal year (ibid.). The International Development Association (IDA) plays a central role in the Bank’s strategies for poverty reduction program development and implementation throughout aid recipient countries – supporting the poorest countries in the form of interest free loans and grants. The IDA relies on member country contributions for most of its financing. UN agencies and the IDA of the World Bank are multilateral organizations and receive ODA (Official Development Assistance) donations from the 20 countries that make up the Development Assistance Committee (DAC) of the OECD. The IBRD, however, was not originally set up as an aid agency and the name ‘World Bank’ was not actually adopted until 1975 (Wood, 2006).

The International Bank for Reconstruction and Development (IBRD) was the first agency created within the World Bank Group framework under the Bretton Woods system

of fixed exchange rates. In 1946, the US had 36% of the voting power at the IBRD (Hardy, 1994). “The word ‘development’ in the IBRD name was rather insignificant at the time because most of the southern hemisphere was still under colonial rule” (Wood, 2006), although this had changed dramatically in a very short time even before the end of formal colonial rule. On the IBRD website, it states that it “aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, risk management products, and analytical and advisory services” (World Bank, 2008a) by promoting foreign private capital investment. To meet its goal of drastic poverty reduction, the IBRD offers both investment and development policy loans. Since its inception, “the IBRD has only received \$11 billion in capital paid in by its members, but has leveraged more than \$280 billion in loans” (Thomas & Allen, 2000: 205). In 1997, “IBRD commitments amounted to \$14.5 billion, of which \$7.4 billion were loans approved to the poorest countries” (Thomas & Allen, 2000: 205), (or those with less than \$785 GNP per capita), less than total ODA and private foreign capital flows. The IBRD funds its lending operations by selling bonds and other debt instruments to other banks. In fiscal year 2002, IBRD adjustment lending soared to a record high of 64% of total commitments, meaning an increase in the importance of policy reform conditions (World Bank, 2002a:9). Additionally, loans are spent on specific projects such as freeways and dams. Therefore, a central factor inherent in IBRD loans is a focus on the role that loans can play in developing infrastructure that attracts foreign investment.

The International Development Association (IDA) was created in 1960 and cooperates closely with the World Bank Group’s International Bank for Reconstruction and Development (IBRD) by sharing staff and headquarters, as well as similar program

evaluation standards and the belief that ‘globalization’ must benefit the world’s poor. Under United States direction, IBRD member countries agreed to create an agency (as part of the World Bank and under US President Dwight D. Eisenhower’s proposition) that would lend to the poorest countries under more lenient terms than typical loan structures, currently linked to the Millennium Development Goals (MDGs) framework. IDA loans are known as ‘credits’, and the first ones were approved in 1961 to Chile, Honduras, India and Sudan (World Bank, 2007a). IDA grants are typically used for debt relief to the poorest countries. By September 2007, the IDA had provided credits and interest-free grants for programs to boost economic growth for poverty reduction totaling “US\$182 billion, averaging US\$10 billion a year” (ibid.) and recently directing the largest share, some 50%, to Africa. Using a ‘broad-based growth’ perspective, IDA finances operate projects in areas ranging from education to health services (such as water and sanitation) to facilitation of improved climates for business, infrastructure and institutional reforms to assist economic growth, and increased levels of employment (which are supposed to generate healthier living conditions).

IDA introduced a Results Measurement System in 2002 “designed to show aggregated results across IDA recipient countries. It reflects the priorities and processes of national poverty-reduction strategies” (World Bank, 2007a), enabling the tracking of indicators for evaluation and performance assessments of program effectiveness through an interactive website. Aggregate country outcomes are used as the first level of measurement and include growth and poverty reduction, governance and investment climate, infrastructure for development, and human development. The second level is an evaluation of IDA contribution to country outcomes through a series of self-assessments

similar to the World Bank, and analyses of IDA portfolios using data from the Independent Evaluation Group (IEG) and the Quality Assurance Group (QAG). IDA remains the most significant source of funding for basic social services in over 80 of the world's poorest countries (defined as Gross National Income (GNI) per capita. In 2008, this was set at US\$1,065) (ibid.). Where the IBRD usually lends to countries with the capacity for repayment, the IDA is sanctioned to lend to those poorest countries that are not eligible for credit. There are specific terms connected to IDA lending, and grants do carry a service charge. IDA donors convene every three years to replenish funds, and the United States contributes the most among donor countries, currently contributing about \$1 billion per year of taxpayer funds to the IDA (Wood, 2006).

The International Finance Corporation (IFC) is the private sector lending arm of the World Bank Group. Its shared 'mission' is "to fight poverty with passion and professionalism for lasting results. It aims to help people help themselves and their environment by providing resources, sharing knowledge, building capacity, and forging partnerships in the public and private sectors" (IFC, 2008). Formed in 1956, the IFC "represented the first step by the global community to foster private sector investment in developing nations" (ibid.). Their vision "is that people should have the opportunity to escape poverty and improve their lives" (ibid.). Where the IBRD and IDA finance loans directly to governments in most cases, the IFC serves a primarily private, investment facilitating function. It "fosters sustainable economic growth in developing countries by financing private sector development, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments" (ibid.). As with the governance structure of the IBRD, the IFC's corporate authority is exercised through a



Board of Governors, and generally represented by the Minister of Finance to member countries. It currently has 179 member countries which are responsible for directing policies and approving investments.

The IFC offers what it refers to as a variety of ‘financial products’ (a combination of financing and advice) for projects in developing countries. In the process for obtaining a loan, a large enterprise (or an ‘investment client’) submits an investment proposal and through the project/investment cycle, may become an IFC-financed venture. Partnerships between various government agencies in developing countries and private companies are allowed and encouraged. One criterion for IFC funding eligibility listed on IFC’s website is that a project must “have good prospects of being profitable” (ibid.), and IFC contributions for new projects are typically 25% of the total estimated costs (IFC, 2008). The IFC “argues that because it lends to private corporations, it has certain confidentiality rights to respect and therefore cannot apply the World Bank’s general information disclosure policy” (Friends of the Earth, 1995).

The IFC publishes a range of reports and documents on its activities. For example, it works in concert with the World Bank Group’s other agencies to streamline operations in investment through a joint *Doing Business* Report. In 2007, the Annual Report of IFC, *Creating Opportunity*, where the Board of Directors reaffirmed a set of five strategic pillars:

- (i) Assisting frontier markets, including IDA countries
- (ii) Building long-term relationships with local companies
- (iii) Ensuring environmental and social responsibility
- (iv) Helping the private sector strengthen infrastructure, from ports and roads to schools and hospitals

(v) Developing local financial markets

Guiding principles listed on its website are excellence, commitment, integrity and teamwork (IFC, 2008).

During the last fiscal year calendar, the IFC significantly increased financing for agribusiness. Also during this time, it had invested \$1.4 billion in Sub-Saharan Africa (doubled from the previous year) as well as a record \$1 billion in the Middle East and North Africa region (IFC, 2008). A large proportion of this financing for private sector-led development projects go to IDA countries and what the IFC calls 'frontier countries', or those with low-income and high risk (high return) conditions for investment. Recently it has taken to supporting private sector led growth through microfinance promotion to reduce poverty as part of Bank-wide 'pro-poor poverty reduction' strategies. The IFC is where multi-national corporations (usually American) work tightly with the Bank and other development agencies through the range of trade agreements administered through the World Trade Organization (WTO). It is physically located at 2121 Pennsylvania Avenue, Washington DC.

The remaining two agencies making up the World Bank Group are The Multilateral Investment Guarantee Agency (MIGA), which offers foreign investors to developing economies sufficient incentives for 'non-commercial based' loss prevention, and The International Centre for the Settlement of Investment Disputes (ICSID), which settles arguments between private investors and host developing countries. Other active agencies of the World Bank include The World Bank Institute (providing capacity building programs to member countries) and the Operations Evaluation Department. The Independent Evaluation Group (IEG) assesses Bank results against original objectives of

some projects through Project Performance reports and Impact Evaluation reports “to assess the economic worth of projects and the long term effects on people and the environment” (World Bank, 2008a). The Quality Assurance Group (QAG) evaluates operations work of Bank staff with an Annual Report on Portfolio Performance, considering a strategic overview of both lending and research activities. Managing for Development Results (MDR) is a ‘multidimensional initiative’ aimed at partnership effectiveness, and at the end of a project, both the Bank and the recipient government complete an Implementation Completion and Results Report using data collected throughout the life of the project. The IDA’s Results Management System (RMS) follows aggregate results and IDA ‘agency effectiveness’ (ibid.). The Group also publishes Policy Research Reports, Country Policy and Institutional Assessments, Working Papers and two journals: the *World Bank Economic Review* and *World Bank Research Observer*. It also holds conferences on development economics where Bank and other economists discuss lending and development policy. Reports offer key statistics by topic, region or country on its comprehensive website. Measurement, monitoring and evaluation of lending and other investment in development projects are supplemented by the Development Impact Evaluation Initiative. It publishes Annual World Development Reports, World Development Indicators, and a recent *Millennium Development Report*.

The Bank’s income comes from donor member country contributions, returns on its own investments, and service fees from operating as money manager for national central banks of member countries (World Bank, 2002b:48), and the need to lend is reflected in internal ‘lending targets’ (Thomas, 2004:488). Current activities of the World Bank are focused on poverty reduction through economic growth in the proclaimed “war

on poverty” – relentlessly working towards reaching the Millennium Development Goal of reducing poverty in half by 2015. Other issues on the World Bank's agenda include the reduction of corruption and the promotion of education. The Bank has a board of 24 members representing either Finance Ministers or heads of Central Banks. Five of these come from its biggest donors (the US, Japan, Germany, France and Britain), while the rest are chosen by its remaining member countries. The 19 executive directors represent groups of countries. For instance, Australia's executive director also represents Cambodia, South Korea, Kiribati and other Pacific nations. Although ‘good governance’ is an important element, banks are increasingly lending on condition that organizations like international NGOs are funded directly for projects in both rural and urban contexts.

Often the governance structures of allegedly global institutions offer a clue into the political and economic interests that may operate predominantly within them. The World Bank holds its annual meetings along with the International Monetary Fund (IMF) in Washington D.C. during the odd numbered years, and throughout the rest of the World in the even. By convention, the president of the World Bank has always been appointed by Washington, and has always been an American citizen (although some have been identified as holding dual citizenship with Israel in the case of Paul Wolfowitz and current president Robert Zoellick). The Europeans choose the head of the International Monetary Fund under a traditional handshake agreement. In recent years, developing nations have been highly critical of this process because they say it means the bank becomes the tool of developed countries, not those for whom it was supposedly set up to benefit.

Current President of the World Bank Robert Zoellick filled the position at a May 30<sup>th</sup> nomination after Paul Wolfowitz’s departure. Former Deputy Secretary of State, and

Chairman of Goldman Sachs' Board of International Advisors, Zoellick "has cut interest rates on loans to middle-income countries to encourage them to borrow more" (Mallaby, 2007), is mobilizing capital to invest more in private sector developments, and is excited to expand the role of the Bank. Currently undersecretary of state and former trade representative, he is an instrumental force behind the coalition for a US – Middle East Free Trade Area (MEFTA). He has a long and distinguished career in the US government, and he was a signatory to the Project for a New American Century (PNAC) document in 1998 that called on then President Clinton to invade Iraq (Juhasz, 2006). The Bank president has a key role as a representative of the world's poorest people. On paper, he is forbidden by the Bank's charter from taking a political stance. A closer look at the political and economic biographies of previous World Bank Presidents will follow in Chapter V during a discussion of US doctrines of, and motives for, aid. More specifically, the predominant functioning policies of the World Bank may distinctly follow from the foreign policy strategies of dominant members.

### **The Changing Role of the World Bank from Reconstruction To 'Development' Financing**

Juhasz (2006) observes that although the World Bank was originally devised for post-war European reconstruction, it shifted its focus to developing economies since "President Truman preferred that the rebuilding effort remain exclusively in American hands and instituted the Marshall Plan" (56). During the presidency of Robert McNamara (1968-1981), attention towards the reduction of poverty was growing. Indicated on the World Bank's webpage in the 'About Us' section, it states that "each institution (IBRD and IDA) plays a different but supportive role in our mission of global poverty reduction and the

improvement of living standards” (World Bank, 2008a). However, Article I of the IBRD Articles of Agreement, as amended on February 16, 1989, state its official purposes as follows:

- (i) 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, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.
- (ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.
- (iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories.
- (iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.
- (v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

“The Bank shall be guided in all its decisions by the purposes set forth above” (World Bank, 2008a). Note that no amendments have been made to incorporate the word ‘poverty’ into the above article to reflect the current ‘War on Poverty’ and brawny commitments to pro-poor growth and poverty reduction. And yet “the cry of ‘poverty reduction’ defuses critics of the Bank as being *anti-poor* and *pro-poverty*” (Wood, 2006).

The World Bank (both the IBRD and IDA) operates through both Poverty Reduction and Country Assistance Strategies. The Poverty Reduction Strategy Paper (PRSP) signals the intention of a developing country to request loans by presenting a paper prepared by the government in consultation with other stakeholders. A requirement for loan agreements, it “sets out macroeconomic, structural and social policy goals...meant to promote economic growth and reduce poverty...and address their investment climate and prescribe measures to foster private sector development” ( World Bank, 2008a). Long-term investment in key sectors such as agriculture and social service provision typify usual PRS’s. The World Bank’s Poverty Reduction Support Credits (PRSCs) are additional annual loans for the implementation of strategies. A Country Assistance Strategy (CAS) also referred to as a Country Partnership Strategy or Joint Assistance Strategy is derived from the PRSP and is a repackaging of similar reform implementations as initial Structural Adjustment programs. It is designed by Bank staff with government officials, as well as a host of other parties. The CAS is “designed to promote collaboration and coordination among development partners in a country...and identifies key areas where the Bank Group’s assistance can have the biggest impact on poverty reduction” after an analysis of current poverty and other trends is completed (ibid.). It is results focused and uses various targets and indicators to monitor performance

and outcome achievement. Under an accepted CAS in May 2007 from Ghana, the World Bank hopes to surpass the Millennium Development Goal of halving poverty by 2015 (ibid.). The International Monetary Fund (IMF) operates similarly through its Poverty Reduction and Growth Facility.

Like the Food and Agriculture Organization (FAO) and the World Health Organization (WHO), the World Bank Group and the International Monetary Fund (IMF) are specialized agencies of the United Nations (UN) and therefore are technically under the direction of ECOSOC (the Economic and Social Council). In reality however, they operate independently of the UN, though in cooperation with it. Many have charged that in fact, they operate as “an appendage of the US Government, with extensive ties to the Wall Street financial establishment” (Chossudovsky, 2007). Voting power is allocated based on financial contribution, and so the agencies are placed “under certain constraints, directly and indirectly imposed by the major aid donors” (Thomas, & Allan, 2000: 216). The G-7 together currently has more than 40% of the directors’ votes (Seabrook, 2003: 74). The US is currently the largest shareholder with 16.4% of total votes. Since any major decision must garner 85% of the vote, the US can veto any decision (Wood, 2006).

The IBRD was specifically set up with a charter to drive post-World War II reconstruction in Europe; and ‘The Bretton Woods System’ is often associated with exchange rate management until the early 1970s. The wider World Bank Group in existence today evolved from the International Bank for Reconstruction and Development, but its present day mandate is much wider: worldwide poverty alleviation in conjunction with its affiliates the International Development Association and International Finance Corporation. It now boasts 186 member countries. From mid 1946



to mid 1986 the World Bank lent a total of \$160 billion for 4,000 projects in some 100 countries, its lending more than doubling in the last ten years of that time. In 1993, the Bank's total capital was almost \$166 billion, though of that only \$10.5 billion was paid in by donors. (Rich, 1994).

A World Bank Press Release in September, 2007, computed total Bank commitments across all regions in fiscal year 2007 of \$34.3 billion in loans, grant, equity investments and guarantees, up \$2.7 billion or 7.8% from fiscal year 2006. Global IDA commitments added up to \$11.9 billion, 25% higher than the previous year, and the highest in IDA history. IBRD commitments totaled \$12.8 billion. The International Finance Corporation, which makes equity investments in member countries, committed \$8.2 billion, an all-time high. The Multilateral Investment Guarantee Agency (MIGA), the Bank's political risk insurance arm, provided \$1.4 billion in guarantees, with \$387 million going to projects in low-income countries eligible for IDA financing" (World Bank 2007b). A truly massive effort.

### **US Dollar Hegemony: The Global Economy as Force Multiplier**

The global economy suffered a dollar shortage immediately following the war. Under Bretton Woods, member countries agreed to a system of exchange rates that could be adjusted within defined parities with the US dollar" (Government of Canada, 2007). The US dollar then became the global reserve currency to which all others were pegged. As it happened, the United States was able to effectively extend its formal hegemony over the Western Hemisphere to Europe and Northeast Asia, asserting new economic authority over past rivals. David Lake observes that "partly by plan, and partly because of the unexpected dollar shortage after World War II, the Bretton Woods monetary institutions

created a *de facto* exchange rate regime in which most countries fixed their currencies to the dollar, giving Washington unprecedented leverage over and responsibility for the international monetary system and, more important, the monetary policies of other countries” (Lake, 2006: 26-27). At the same time, The United States was running a huge balance of payments surplus and that money needed to leave the US for use in international investments; by in point of fact, also exporting inflation. Large destabilizing flows of currency were uncompetitive and the need to export it for more profitable investment was provoked. Deliberately encouraging an outflow of dollars from the late forties to fifties, the US provided liquidity to the global economy, therefore actually encouraging a balance of payments deficit, leading to the US balance of payments crisis between 1958 and 1968. This did not derail a clear rise in capital export for aid and other foreign investment during and following this period. Simultaneously, through policy conditions attached to aid, the US and World Bank were actively devaluing the currency to increase the competitiveness of the country’s export products, thereby reducing balance of payments deficits. The stated aim was to prevent currency competition and to promote monetary cooperation. The system of fixed exchange rates was replaced in the early 1970s by a system of floating exchange rates, often based on speculative betting.

After all, aid was developed to rebuild productive and export capacity and keep economies ‘open’ to the conditions that create growth and reduce poverty, therefore benefiting everyone. In September 1963, US President Kennedy addressed the annual meeting of the IMF and World Bank and explained the purpose behind the creation of the institutions: “Twenty years ago, when the architects of these institutions met to design an international banking structure, the economic life of the world was polarized in

overwhelming, and even alarming measure on the United States... 60 percent of the gold reserves of the world were here... there was a need for redistribution of the financial resources of the world... and there was an equal need to organize a flow of capital to the impoverished countries of the world. All this has come about. It did not come about by chance but by consciousness and deliberate responsible planning” (Griffin, 2002: 109-110). Robert McNamara transitioned the focus of the Bank away from project-based lending and towards program lending during the 1970s. Meant to “alleviate poverty by changing social structures” (Thomas & Allen, 2000: 206), more money was committed with more conditions applied to its incorporation into any economy using structural adjustment throughout the 1980s. While the US promoted its neo-liberalism throughout the Global South centered on trade liberalization, it continued its protectionist policies of government subsidies and import restrictions in favour of domestic producers and corporations.

The New Deal signaled a growing capacity “to restructure the relations of production and power within a single dominant capitalist country, but also, above all, in terms of effects throughout the world” (Hardt & Negri, 2000: 241). Unable to avoid war due to capital expansion, from World War II until the 1960s, the New Deal of ‘disciplinary society’, or a ‘social state’ helped to pave the way for the domination of the dollar in global markets, and was aided with the Bretton Woods agreements as well as the following Marshall Plan; all allowing for the extension of US economic and political hegemony over ‘development’ practice and scholarship extending to present day. In the 1970s, proposals were tabled by developing countries to modify trade and debt-related mechanisms to allow for greater participation and autonomy of developing countries, also known as the ‘North-South

Dialogue'. The proposals were collectively known as the New International Economic Order (NIEO), but merely resulted in a largely inconsequential, non-binding Programme of Action and a Charter of Economic Rights and Duties of States adopted by the United Nations General Assembly in 1974.

### **1980s—Neoliberalism and Adjustment**

A system of sovereign states has certainly never contained one state with this degree of dominance over global financial markets and transactions before. The Unique and largely unilateral nature of the current world order becomes obvious in suspect places where there is an observable lack of counterweights or balances. Loans from the World Bank before the 1980s were given with few strings attached, and developing countries were already in severe debt to both lending institutions and foreign commercial banks from bilateral aid from the US and multilateral aid through the World Bank and other institutions. Structural Adjustment effectively allowed banks to make their money back from increasing debts, while offering access of new resources to foreign corporations. In the 1980s, the World Bank considerably increased policy based lending following a debt crisis partly sparked by an Iranian oil embargo in 1978, which further implored recipient countries to reform government policies and institutions during a time when commodity prices dropped and more 'aid' was being spent on former debt repayments. At the same time, the rise of neoliberal ideology in the United States saw a move "towards an emphasis on free-market strategies" (Thomas & Allen, 2000: 206). What results, is often the exercise of state power in service of moral ideals and values that are assumed to be universal.

In 1981, new President Alden Clausen appointed chief economist Ann Krueger who believed that free markets provided the necessary solutions to poverty, and saw

government intervention and regulation as the problem. The privatization of industries then picked up speed as a consequent function of liberalization policies primarily arising from structural adjustment programs. The administration of Ronald Reagan focused on the application of structural adjustment particularly as a tool that could oblige other nations to open their natural resource sectors (such as water and oil) to foreign investment guarantees. Only six months into his presidency, the US Treasury Department released a report documenting some of the ways that the US could take advantage of ‘the neutral stance of the World Bank’ to expand US economic interests and corporate access in order to reduce OPEC’s leverage (Onorato, 1995). The report argues that to ‘catalyze private investment flows’, the World Bank should facilitate lending to large scale oil and gas projects in the worlds poorest countries and “establish the necessary climate to foster private sector investment in energy and other sectors” (ibid.). Focus during the Reagan administration on structural adjustment programs was also seen as a way in which the US government could best take advantage of ‘the neutral stance of the World Bank’ to expand corporate access to oil and reduce OPEC’s influence (Vallette & Kretzmann, 2004). In fact, a look at the World Bank’s Projects Database reveals that “from 1982 to 1984, the World Bank funded more than 55 oil and gas projects” (Juhasz, 2006: 68), from Morocco to the Philippines. Structural adjustment was also seen as an opportunity for countries to pay off previous reform-related-aid induced debts.

Since around 1980, the World Bank began insisting on considerably more sophisticated conditions that were attached to ‘development aid’, including increased privatization of state enterprises, currency devaluation, exporting commodity crops and other neoclassical market driven fiscal directives for global economic integration such as

loosening of trade barriers and government restrictions on foreign corporations. Whereas investment loans tend to support specific projects like infrastructure development and so on, adjustment loaning is conditional on government policy reforms in the recipient country. In other words, aid induces policy changes through ‘pressure-point incentives’ for a government to reform. In fiscal year 1982, the World Bank “committed something like \$13.6 billion” for development projects in the third world (Payer, 1983: 79).

Adjustment programs have also necessitated the building of infrastructure such as roads and power plants that often serve to lay the groundwork for multinational investment and privatization. This is achieved by conditioning loans designed to “resolve balance of payment crises on the privatization of national industries, the removal of barriers to foreign investment in key sectors, the reform of financial systems, the privatization of social and environmental services, and the redirection of economies toward an increasing export-orientation” (Karliner: 1997: 3). Together, these and other components of adjustment effectively pry open previously protected markets to escalating transnational corporate investment.

While the World Bank’s mandate consists of combating poverty and protecting the environment, its support for large-scale industrial and extractive projects has actually speeded up the unsustainable process of deforestation and the destruction of the natural environment, leading to the forced displacement of millions of people. The application of the structural adjustment program in a large number of developing countries favours the “internationalization of macro-economic policy under the direct control of the IMF and the World Bank acting on behalf of powerful financial and political interests” (Chossudovsky: 1999: 37). This new form of economic domination is able to

subordinate people and national economies through the seemingly neutral interplay of ‘natural’ market forces based on principles of ‘comparative advantage’. The ideological and programmatic structure of poverty reduction strategies have unfolded under a particular set of historical circumstances. Both will be expounded upon in the following section, including a comprehensive review of SAP’s and other associated measures implemented by the World Bank to meet the Millennium Development Goal of halving poverty by 2015. Arguments focusing on the ‘effectiveness’ of aid – the extent to which aid is *working* – will require careful attention.

### **Arming For War on Poverty**

The annual World Development Reports of the World Bank comprise its most significant contribution to data and analysis for development economics research. It focuses on a specific aspect or theme of development each year. For instance, the WDR for 2008 was *Agriculture for Development*, for 2009: *Reshaping Economic Geography*. In 2000/2001, the WDR titled *Attacking Poverty* spoke to the current mantra of pro-poor growth, harnessing global forces for poor people, as well as reforming development cooperation to attack poverty. It argues that major reductions in poverty are possible - “that the interaction of markets, state institutions, and civil societies can harness the forces of economic integration and technological change to serve the interests of poor people and increase their share of society’s prosperity” (World Bank, 2008). The World Bank hosts a web space dedicated to ‘pro-poor growth and inequality’, and has produced a number of publications looking at country case studies and analytical tools for operationalizing pro-poor growth strategies and a ‘holistic development framework’.

The World Bank operates within a narrow ideological structure, and peddles the same recipe for 'development' in a variety of forms. The ideological and administrative foundation on which it was built became a stage from which it could re-brand itself for the new challenges faced by global poverty and inequality. It would have to plan to engage with nations, with some certain creativity, if it was to reassert itself in the world as a poverty fighting agency, rather than just a bank. A move towards development and poverty reduction strategies was successful in rebranding loans under the rhetoric of 'aid' with an image of a new development paradigm. This program was based on economic growth through full participation within, and 'ownership' of, anti-poverty programs by recipient countries, but never diverting from the mantra of aid for economic growth. Where the positive correlation between poverty reduction and development aid remain tenuous points of contact, the mobilization of public support for foreign government interests is accomplished through the rhetoric of poverty reduction and 'globalization' to defer criticism of particular interests.

The World Bank's Heavily Indebted Poor Country Initiative (HIPC) is one example of repackaged structural adjustment, offering the world's poorest countries one third reductions of their current payments to foreign creditors (Mokhiber & Weissman, 2002a) – only after they implement structural adjustments to government spending and wider fiscal policies including trade and investment, all aimed at opening the economy to the 'global market', basically amounting to debt refinancing. Official Development Assistance (ODA) and other lending from various 'agencies of development' are inherently conditional. Some would argue that subsequent trade and economic liberalization have created economic dependence and debt, while simultaneously raising



poverty rates in both relative and absolute terms throughout the ‘developing’ world. It would seem that there may somewhere be a problem or two in the suggestion that economic growth leads to poverty reduction, but such has been the case with the ongoing work of the World Bank.

In conjunction with the historical context of ‘exporting growth’ leading to ‘development’ through the World Bank discussed above, the intellectual and policy landscape of modernization and will be discussed in the next chapter to lay the groundwork for discussing the policies prescribed for poverty reduction arising from the principles of economic growth for meeting the UN Millennium Development Goals. Bank policy and related intellectual discussions will be presented to expose the economic foundations of the structure and agency of the World Bank as directed by particular ideologies of economic growth and development, and its connection to American interests. The main apparatus of early development assistance or ‘aid’ came in the form of the Structural Adjustment Program (SAP) briefly introduced above, and premised on a series of theoretical and policy frameworks applied as ‘poverty reduction’. Accompanying rules for these programs like conditionality, decentralization and deregulation, as well as currency devaluation and export production for free trade mimic economic principles of growth emerging from the powerful states of the West, most notably the United States. Privatization of state industries through foreign direct investment will also be discussed in later chapters as they relate to the poverty fighting methods of the International Finance Corporation (IFC) in Bank loan recipient countries.

A move towards poverty reduction strategies attempt to re-brand aid with an image of a new development paradigm based on the required participation within, and

ownership of, anti-poverty programs by the poor. Directions towards what is called pro-poor growth strategies, the Bank's 'holistic development' framework is actually directed away from aid conditionality, and focused instead on the democratic rewards of good governance. So one can see the imposition of morals and values by international banks, and not just the fiscal reforms needed to secure control over the flow of money, labour and resources – to reinforce what some would consider a grand deception. But the development project came just in time for official decolonization throughout the Global South.

## Chapter II:

### A Model for Failure?

This section of the assignment will advance a number of definitions and descriptions of key concepts and central debates surrounding economic growth and poverty reduction. Some of the essential thematic areas to be considered include speculations on the relationship between economic growth and development, the definitions and measurements applied to poverty, the application of ‘development aid’ to poverty reduction, and a discussion on the language and discourse surrounding, ‘effectiveness’, ‘success’ and ‘failure’ of World Bank poverty reduction programs and initiatives through the Banks’ knowledge transfer on its ‘war on poverty’. The conceptualizations and definitions of poverty, as well as the varying measures of poverty and poverty reduction, greatly impact data and results that determine the course of economic development in so-called ‘Third World’ countries from international financial institutions.

Economic, social and political power is embedded within a complex set of interests, relationships and behavior. These factors, as a product of observed historical conditions, are intractably related to the pathological expansionist logic and the inherent exploitative tendency of capitalist economics and trade. In dealing with these various thematic areas, one can not only see their interconnectedness, but also some of the ways in which they affect each other under the dominant policy agenda exercised through ‘global’ banks and institutions now apparently in the business of saving lives. This chapter will also help gain a vocabulary of concepts and tools that will help shape the methodological

inquiry and analysis, and in this way, will identify core works and identify major points of consensus and contention in ideas of how power works through the structure and agency of aid. The review will, from a critical perspective, aid in drawing out the major debates and lines of criticism between and within literature amongst theorists and academics, policy makers, governments and international agencies that inform and frame the rules of poverty reduction strategies within the global economy.

The focus of analysis will be on a discussion and evaluation of poverty reduction dogma, primarily for the first Millennium Development Goal of halving poverty by 2015. From the perspective of prescribing economic growth for fighting poverty, the discussion will turn to an introduction of various programmatic initiatives aimed at restructuring economies in aid recipient countries including Structural Adjustment, Poverty Reduction Strategy Papers, the Heavily Indebted Poor Country Initiative, the enhanced HIPC and new proposals for ‘pro-poor growth’ strategies, revealing “the new economic model of neoliberalism and its reliance on the importation of capital (termed ‘liberalization’ and ‘integration’) (Petras & Veltmeyer, 2005: 168-9) to be further explored in Chapter IV. This will help lay a foundation will provide a foundation for transitioning into the next chapter describing the historical context of influence that the American system of imperial economics have throughout the processes of growth for development and poverty fighting programming.

It would be well to emphasize at this point that this chapter is concerned with one particular category of expenditures on foreign aid – multilateral economic aid – and with one class of arguments for such expenditures—their value in promoting the economic development of other countries (Friedman, 1964: 25). But it is impossible to separate the

political from the economic in an investigation of ‘development’ practice. This also holds true when reviewing the intellectual landscape of debate surrounding World Bank development aid and rationales surrounding its various applications and reforms. In that, this analysis works to operationally combine these constructs to reveal the interconnectedness of economic growth and development aid within a global economy driven through the contrivance of international organizations by the most powerful state. Merging theoretical concepts into the framework for discussing results of poverty reduction models in this way, can complement statistical data in Chapter IV to reveal the nature and purpose of development aid exercised through the World Bank and its relationship to the national interest of the United States.

There are emerging trends in Bank knowledge transfer concentrating on the portrayal of development aid and conditions for borrowing and debt relief as ‘partnerships’ based on mutual gain (Gould, 2005). But the preparation of a PRSP, for example, is a condition for eligibility for debt relief under the HPIC program, and is essentially a repackaging of structural adjustment loaning. With new Poverty Reduction Support Credits, and new names attached to the process, the “key macro-economic policy conditionalities remain intact; the policy prescription has not been adjusted to suit the overall goals of poverty reduction” (Gould, 2005: 3). Political and economic forces have shaped the swing from adjustment to pro-poverty partnerships under the banner of pro-poor growth, and have led to the “depolitization of governance and the transnationalization of political space” (pg.8) through policy based lending of aid. This places recipient countries in the position to accept responsibility for the effectiveness of

poverty reduction strategies delivered by external aid agencies, and creates a point of contention with simultaneous policies for decreased government roles.

Seemingly neutral policies are important to deploy, as it makes recipient countries more responsible for aid, as well as portrays donors as acting in moral a-political ways. Belief that international financial institutions operate through political neutrality is necessary for the perception of equal partnership, and therefore potential for equal benefits. Fowler (2000) points to such dynamics of ‘partnership’ as a means to persuade countries to accept a particularly Western view of poverty reduction that dislocates alternative visions and practices, and to generate new ‘development assimilation’. The effects of donor interests become visible through aid loaned to finance high-ticket transportation and other infrastructural construction conducive to FDI. The ideas put forth in the 1997 *World Development Report* from the World Bank placed the governments of recipient countries in an important relationship with the private sector (World Bank, 1997) changing its emphasis from a minimal actor to an ‘effective’ one. Not surprisingly, one might see tenuous points of contact emerge when considering both motives and ‘official’ objectives of poverty reduction strategies – to raise living standards of the poor, as motives often directly reflect national security concerns (Blair, 2000: 6; Klair, 2000: 10; OECD, 1996; Sachs, 2001), in those countries leading the aid-for-development project. Development relies on the accentuation of participation of the poor for its continued successes as a tool, and to apparently ensure less volatility to financial crisis and external shocks (Lustig, 2001) through increased country partnership with donors and ‘ownership’ over the development process. It is not difficult to conceive of why such a study into specific intellectual debate into the role of economic growth and aid is necessary,

considering the growing ‘magnitude and duration of increasing global inequalities’ (UNDP, 1999: 3; World Bank, 2000: 3) in the face of prevailing American national interest.

### **Economic Growth and Development**

As discussed in the previous chapter, discussions within the United States on how it could best ensure sustained hegemony in the global economy were pervasive even before ‘development’ became so *en vogue* as it is today. President Truman addressed the expansion of American foreign aid in his ‘four point plan’, which included the Act for International Development, approved by congress in 1950 (Degnbol-Martinussen & Engberg-Pedersen, 2003). Wolfgang Sachs (1992) confers that the idea of development was ‘invented’ in the 1940s, and constituted “another form of imperialism, imposing new relations of domination on peoples and countries” (Petras & Veltmeyer, 2005: 176). It escapes common sense that he would later declare *The End of Poverty*, based on the sentiment expressed in his previous statements. In his book *Development as Freedom* (1999), Amartya Sen has defined economic development as “the process of expanding the real freedoms that people enjoy” (pg.3), where poverty alleviation is visualized as an expansion of the capacity or opportunity for a ‘good life’.

As Esteva points out, “development occupies the centre of an incredibly powerful semantic constellation. There is nothing in modern mentality comparable to it as a force guiding thought and behavior. At the same time, very few words are as feeble, as fragile, as incapable of giving substance and meaning to thought and behaviour as this one” (Esteva, 1992: 8). Classifications from ‘developing’ and ‘developed’ states to ‘less developed’ and ‘underdeveloped’, “implies the need to develop these states – and so the

development discourse was born (Dickson, 1997: 24). Further to that, “the language used to describe particular phenomena or practices can have an important effect on the subject of enquiry as well as the manner in which it is approached. We therefore need to recognize the values embodied in the language we use” (Dickson, 1997: 24) and evaluate it critically.

The dominant model of ‘development’ is a Western construct that has morphed over time to mirror a series of political and economic periods throughout the modern history of capitalism. Larrain (1989) argues that the evolution of development theory has actually followed the discourse of capitalism. One of the influential theories on the economic determinants of development was the linear-stages-of-growth model, originating with W.W. Rostow’s *The Stages of Growth* (1960), focusing on the accelerated accumulation of capital through savings in order to invest towards promoting economic growth (Rostow, 1960) and removing ‘obstacles’ to development. In Rostow’s model of modernization, five successive stages of economic growth result in capital accumulation, or ‘savings’ and ‘investment’ in finance-gap-model speak, and a sufficient condition for ‘development’. Rostow “emphasized the economic determinants of the transition” (Dickson, 1997: 35) to modernity through five stages including the traditional society, the preconditions for take-off, the take off, the road to maturity, and the age of high mass consumption. Where he assumes the potential of growth arising from determinants within, Rostow fails to conceive of the external political and economic forces driving the global economy as the central factor acting upon and influencing ‘economic growth’, not least its distribution. This dominant framework for development was aptly characterized as a ‘market fundamentalism’ of the Washington Consensus by



Joseph Stiglitz (2002), in what became the crux of a series of reforms applied to Latin America shortly after. Rostow characterized rising productivity through modern technology as a means of making “the forces making for economic progress...expand and come to dominate the society” (Rostow, 1960: 103). Counter to this early orthodoxy was international dependence theory and its variants, which arose in the 1970s and viewed the obstacles to development as being external in nature. Dependency theories arose as a response to policies of economic growth which purported the opposite, and viewed the so-called Third World as being economically and politically dependent on the developed countries which had a vested interest in maintaining that position of dominance (Todaro, 2006) through investment opportunities.

Development economics had become increasingly concerned with only market relations in its policy considerations with only limited reference to the broader political relations embedded within the economy. The most widely promoted prescription for development is the application of principles of economic growth (Seabrook, 2003). Distinguishing from economic growth and economic development, Helpman (2004) postulates that where economic growth refers to a long-term increase in GDP per capita, development is a much broader concept, with Schumpeter (1911) one of the only theorists drawing a clear demarcation between growth and development. When the use of the term ‘development’ began to find its way into the global political and economic agenda, however, is widely attributed to the aforementioned 1949 address by former US President Harry S. Truman, leading to what became the Truman Doctrine.

It is arguable that there is something inherently problematic with employing a market approach of macro economic growth to poverty reduction, and to addressing the

basic and strategic needs of the poor themselves. Because each country has a special set of historical social and ‘development’ circumstances giving rise to exclusion and the recycling of policies that create poverty, addressing other related issues like social injustice and inequality arising from capitalist accumulation becomes impracticable because the economic growth formula is applied the same way in every country – through policy adjustment loaning. International trade and private foreign investment constitute two main pillars of economic openness, which we are told is a precondition for development. According to the World Bank, crucial mechanisms that benefit the poor are: 1) export activities that create access to the markets of rich countries for both manufacturing and agricultural goods and thus mobilize labour into a globalizing economy; 2) intensified competition among producers as well as among providers, reducing the price of basic goods and thus benefiting the poor; and 3) increasing labour productivity and wages, thus reducing inequality (World Bank, 2002). Even though differences in absolute poverty between the lowest income countries require explanations beyond purely economic dynamics, “the dominant explanation of poverty has emphasized economic growth, contending that economic accumulation and the rising income level can play a key role in alleviating poverty” (Tsai, 2006: 268). Recent research in the field of economic growth deals with interactions between growth and inequality and the role of institutions and political systems. Overall economic growth rates in the 1990s, for example in industrializing countries like the ‘Asian Tigers’, China and India, often conceals as much as it reveals.

In *The Lexus and the Olive Tree*, Friedman sensed that economic globalization brought the freedom and opportunity for each individual to work his way to the top

(Friedman, 2000). The thesis that ‘globalization’ reduces poverty is promulgated by neoliberal ideologues convinced of the need to tie poverty reduction to opening economies to the global market. Supporters of ‘economic globalization’ contend that one of the reasons countries become poor is that they are isolated from the global economic trading system. They need to ‘catch up’ and the pundits are there to help, of course. The logic of the market as synonymous to society has also added to the power of development theory and praxis, in that IFIs are culturally accepted as institutions that have the interests of society as a whole, in mind. The literature in this area helps to illustrate how this reasoning has led to the conclusive logic that anything good for the market is good for the poor. If the market then equals society, this judgment gives Banks and powerful Western government interests new terms and criteria to rationalize (and even conceal the nature of) their expansion. An example of this is the Monterrey Consensus, adopted at the International Conference on Finance and Development in March 2002 in Mexico. Sponsored by the United Nations, it focused on key issues of finance and development, and was attended by various members of governments, private sector leaders, and all major intergovernmental financial, trade, economic, and monetary organizations. The Consensus has enabled further positive correlations between financial globalization and growth (Prasad et. al., 2003), suggesting the ability of poor countries to ‘grow out of poverty’ (Lustig, 2000).

That economic policies and decisions are largely based on minimizing costs and maximizing benefits (or surplus appropriation), is a major obstacle preventing meaningful attempts at actually reducing the scale and growth of poverty, as opposed to merely moving it around with statistical models to ‘balance’ out the impacts of development aid.

The American Enterprise Institute confers that “if the aid doctrine requires not merely *some* improvements in levels of living but the ‘modernization’ of the economy, the outlook is even more discouraging” (Banfield, 1963: 8). Whereas Rostow’s stages of economic growth place the onus of development on a country that has no power over the system of the global economy built necessarily to their disadvantage, what should be presented in the context of international economic development (as compared against corresponding growing rates of poverty), are the specifically US trajectories of economic imperialist expansion and consequent conglomeration, as secured by the World Bank through mechanisms of aid and loan deliverance, through structural adjustment, foreign direct investment, and trade.

There is both a push and a pull factor at play. On the one hand, foreign investment relies on cheaper labour and lax regulatory standards to minimize costs; and on the other hand, national governments also try to attract industry in the hopes of reducing poverty through increased employment. The tendency is actually towards increased industrial concentration (or monopoly), the elimination of smaller domestic enterprises, as well as the privatization of the service economy through foreign competition and corporate franchising. One major contradiction within the system of capitalism is that the ‘rules’ and logic of the global economy actually work to destabilize purchasing power in developed countries when production is moved overseas (Chossudovsky, 1999). These structural conditions required for ‘growth’ provide an interesting lens from which to evaluate particular imperial relationships within economic development agencies, strategies, and the results of development aid. Where the tradition of subsistence agriculture and communal land rights is in danger from large development banks and the ‘international

community', this danger is continuously reintroduced under every auspice possible in favour of 'modernization'. Economic growth can actually lead to increased levels of poverty and growing inequality as the production for export drives wages down and creates higher profits for the owners of the means of production. The wider historical trajectory encompassing the ideology of 'modernization' is used to justify the continued function and agency of aid assistance policies to date.

### **Defining and Measuring Poverty**

Poverty is a multidimensional and pervasive condition existing both before the clever project of 'development', and as a product of it. The World Bank defines poverty as "the result of economic, political, and social processes that interact with each other and frequently reinforce each other in ways that exacerbate the deprivation in which poor people live" (World Bank, 2001: 1), leading to further inequality 'multiple deprivations'. When we say poverty, we want to attach a particular set of qualifiers to the concept, so that we can compare the rate and prevalence of it. At the turn of the Century, 'the average income in the richest 20 countries [was] 37 times the average in the poorest 20 – a gap that has doubled in the past 40 years' (ibid., pg.3). At that time, 2.8 billion of 6 billion people lived on less than \$2 a day (ibid.). In 2004, over 1 billion people lived below the international poverty line, earning less than \$1 per day (World Bank, 2007c1). Poverty can include levels of consumption, literacy, social exclusion, life expectancy, income, inequality, hunger, and other variables. Although the proportion of the population living below US\$1 per day declined from 40% to 21% between 1981 and 2001, this was primarily due to speedy economic growth in China, and little to do with World Bank aid. Counter to assumptions regarding the positive correlation between economic growth and

poverty reduction, the total number of people in the world living on less than US2\$ per day actually increased worldwide during this period, with significant increases in both relative and absolute poverty (Nissanke & Thorbecke, 2007: 1). World Bank and UN figures look at the difference between rich and poor nations, but not the difference between rich and poor people within and between those nations, at least beyond the regional level.

The United Nations Millennium Declaration was adopted by 189 member countries in September 2000 at the Millennium Summit, and outlines a commitment to achieving the Millennium Development Goals. Among the 8 goals with various targets and indicators, 149 heads of state and various international institutions resolved to half the number of 'poor' people in the world living in abject poverty by 2015, where poverty is defined by living on less than a dollar a day. The Millennium Project is now administered under the United Nations Development Program. It recently released a publication, *In larger Freedom* (2005), which is a follow up to the Millennium Summit and discusses the status of implementation of the Millennium Goals, as well as directions forward (World Development Movement, 1999).

Water stress, defined as countries that consume more than 20% of their renewable water supply each year, became an important conceptual tool for measuring levels of absolute poverty. Both UNICEF and the United Nations observe that more than one billion people worldwide lack access to clean drinking water (UNICEF, 2003 & UNDP, 2003). While they project a 40% increase in global water use by 2020, one third of the global population lives in countries with moderate-to-high water stress, defined when water consumption exceeds 10% of renewable freshwater resources (UNEP, 2003), and

where the rural poor are seen as being most affected by such scarcities. The United Nations estimates that more than one billion people in the world today are without safe drinking water and nearly three billion lack access to adequate sanitation – two conditions with serious consequences for poverty reduction. It is not surprising then, that about half of the people in the developing world suffer from diseases caused by contaminated water, and an estimated 14,000 – 30,000 people die each day from water-related diseases” (Gardner, 2002).

Hunger and the threat of famine are the most potent symbols of poverty (Seabrook, 2003: 33) where families and communities are unable to meet basic needs for survival. The Food and Agriculture Organization of the UN reported in their 2006 thesis *State of Food Insecurity in the World*, that over 850 million people in the developing world are undernourished, consuming less than the minimum amount of calories needed for healthy growth (Food and Agricultural Organization, 2006), leading to chronic malnourishment. In 1995, approximately one third of the regions population (170 million people) had insufficient calories and about 26 million children were malnourished (UNDP, 1995), while most of the world’s poor depend on grains or cereals like wheat, rice, maize, and barley account for more than 50% of their energy intake (Dasgupta, 2004). Every day, almost 16,000 children die from hunger-related causes – one child every five seconds (Black, Morris & Bryce, 2003). Even the World Bank itself conceded back in 1986, after the debt crisis implored poor countries to lend more aid, that the main cause of hunger is poverty and the human institutions that perpetuate it (World Bank, 1986). Seabrook (2003) and many others agree that there is enough food in the world to provide every human being with 3,500 calories a day. Scarcity is not the problem. (pg.33).

Hunger has become a phenomenon so pervasive not due to a lack of food production, but one of distribution (Dickson, 1997: 96). In Chapter IV, access to drinking water will be addressed in conjunction with rates of absolute hunger as reference points from which to determine the World Bank's progress towards reaching the first MDG of halving poverty by 2015 through its programming.

There is an extensive range of discussion and debate surrounding broad themes of development, aid and 'globalization', producing even more schisms in interpretation. Where the globalization process is said to promote openness through trade and capital movement liberalization, Nissanke & Thorbecke (2007) posit that poverty reduction and growth in GDP is aided by foreign direct investment that raises productive capacity and more "efficient resource allocation" (pg.2). Maybe it is no wonder then why those in favour of globalization tend to explain poverty reduction in terms of increased international trade like Jagdish Bhagwatis' *In Defense of Globalization* (2004). For those in favour of the globalization process as having positive effects on poverty reduction, a "higher aggregate growth rate of GDP is good for poverty reduction" (Nissanke & Thorbecke, 2007: 3), although it is conceded that inequality can "damper" the positive effects of growth on poverty reduction. It has been observed in Mexico, for example, that data aggregated at the national level "hides not only the heterogeneity of socio-economic conditions, but also the great inequalities that exist between rural and urban areas, between different geographical regions, between indigenous and non-indigenous peoples, and between the sexes" (Tetreault, 2006: 310). But in general, it is argued that global poverty has been, and still is "recreated in the image of poverty in the West: a money calculation of what is required for survival" (Seabrook, 2003: 52). Where the rules of the



global economy are normalized, and measures of wealth and poverty depend solely on monetary calculations, poverty becomes incurable.

There are numerous ways to measure poverty based on a variety of economic, income based, and other methodologies including the Poverty-Line Method, the Unsatisfied-Basic-Needs method (which both measure long term national level trends) and Purchasing Power Parity (PPP). Based on levels of consumption, the international poverty line has been based on 1993 data and set at \$1.08 but will soon be redrawn to reflect 2005 household data, according to the UN (2003: 7). As it is a very complex and multidimensional phenomenon, measures are needed that look at different dimensions of poverty. There are plenty of current quantitative methods expressing poverty rates and trends, however, which conceal just as much as they reveal.

The core initiative of ‘development’ is poverty reduction, but the historical failure of development to eradicate poverty appears, as Marx would say ‘first time as tragedy, second time as farce’. This farce for McMichael (2006) is that this project forges on, and “poverty continues to be represented as an originating condition, rather than an outcome, of ‘development’” (pg.471). The official mandate of the World Bank, however, is to promote economic growth through foreign private investment while insisting that when institutions and policies are “right”, they will ‘take off’. This idea is once again, reproduced in new language such as the World Bank’s ‘holistic-development framework’ (Standing, 2000).

Arising in the 1970s, the ‘basic needs’ paradigm arose from the UN as a liberal reformist agenda for addressing the worst effects of poverty. Where the market is seen as necessarily entailing unequal growth and exploitation, the basic needs approach can be

argued as belonging to those who would make it easier to cope with the growth of imperial economic conditions. Basic needs and improved public service approaches to poverty reduction suggest reforms to the system including a moral imperative to provide basic needs such as access to food, greater participation of the poor, sustainable development, human capital, as well as enhancing productivity to increase demand and investment, therefore leading to economic growth. In computing multidimensional indicators of well-being not explained by per-capita income, Mark McGillivray attempts to show increasing gaps and inequality within and between nations, recognizing the non-income dimensions of poverty and inequality. He claims that the best model for measuring multi-dimensional wellbeing at the level of nations is the UNDP's human development index (HDI) (McGillivray, 2006: 2). The UNDP also publishes country level data on its human poverty index (HPI) (UNDP, 2005) but again we seem to be facing the limits of data aggregated at the national level to expose the sources and mechanisms of poverty within nations, where the capitalist classes may be the only ones to benefit from 'aid' in the form of foreign investment from fiscal restructuring.

So we are back to where we started. The same language of 'basic needs' approaches seem to be reproduced in that of 'partner approaches', where orthodox paradigms of macro economic growth for poverty reduction with the help of the private sector is supposed to create meaningful and dignified existence. In a partnership mentality between the state and private interests, rural-micro credit programs help to perpetuate service based (as opposed to rights based) approaches to the delivery of basic needs – the poor as 'client' approach. Conditions are created that make it appear as though people have power to help make decisions from the bottom up. In reality, one more often

observes debt and dependence as a result. But the more poverty that is created, the more help and aid are needed to fight it. Where achieving basic needs are crucial to meeting the first MDG, the prevailing approach to poverty reduction “will probably soon be relegated to historical accounts of the Bank, as an episode which moreover had more to do with rhetoric than reality” (Haytor &Waston, 1985: 236).

There are other ways of looking at poverty like the growth of inequality over time, both between and within nations. According to Jeremy Seabrook (2003), it is “important to distinguish between poverty and inequality, for the former measures a state of absolute want (absence of necessities for survival) and the latter is an index of social injustice” (Seabrook, 2003: 24) and that inequality can increase even when poverty is decreasing. Surprisingly though, the United Nations Commission on Trade and Development (UNCTAD) reports that “the inadequacy of the analytical foundations for effective poverty reduction in poor countries in general, and in the least developed countries in particular, is not generally recognized” (pg.26-27). The fact is that the creation of wealth without redistribution increases inequality and can raise poverty rates. By 2015, for example, goods that can be bought for one dollar today may cost five times that. The numbers of people living on less than one dollar a day may have halved, but this gives no indication of whether they are actually better off (Seabrook, 2003). The potentiality of wealth redistribution by addressing the basic needs of the poor while relying on economic models of growth, cannot be durably affected by selective projects, programs, policies and even institutions if these run counter to the long run, basic tendencies of the system” (Haytor & Watson, 1984: 246). The World Bank abrogates to itself the right and responsibility for defining the parameters for deciding who in the world is living in either

relative, absolute or abject poverty, and more importantly to the public image of the bureaucracy, how to 'fight it'.

The effectiveness of development aid has been insisted upon for over half a decade, with inconsistent and even troubling results of poverty reduction through policies for economic growth. Along with the World Bank's continued dedication to "macroeconomic pro-poor growth", O'Malley & Veltmeyer (2006) state that the "New Poverty Agenda" extended to the area of local development (pg.301), yet still conceiving the poor as non-political actors. We know little about some key areas, notably the "processes and dynamics of political and economic power that generate poverty and equality and skew income distribution towards the rich" (Bush, 2004: 673). As Bush (2004) does, this work will "extend the definition of poverty to include power relations. In reviewing the possibility that exclusion of the poor should be redressed, Bush claims that the crucial issue if how poverty is created and reproduced is lost" (pg.674).

Despite seemingly clear objective causes and solutions (although hotly contested), the conception and measurement of relative and absolute poverty is defined and imposed by the donors of official development assistance (ODA), with institutional scholarship reflecting clear neoliberal bias. Progress through the economic growth approach to fighting poverty has been uneven to say the least, and its programs often appear to be based on aggressive pursuit of external interests (based on forthcoming analysis of ensuing statistics of global poverty and growth) which provides the foundation for the expansion of such policies. The modernization paradigm measures and analyzes poverty in aggregate terms at the national level using indicators of Gross National Product (GNP) or average statistics on trade, and not at the domestic level where exploitation and

exclusion can be better identified and assessed. But under pervasive conditions of class antagonisms, the cheap labour economy is a direct result of development aid and becomes the target of new developments under these conditions and a closed or nationalized economy is no longer allowed. So when looking at the results of development projects, one must look beyond any initial spike in domestic production or any economic growth at the national level. Capitalism must create inequality, and it does this by using its international apparatus to fractal its means and ways at the level of the state, the community, the family, and finally at the level of personal identity. The historical progression of capitalism into imperialism, as it coincides with the growth of ‘development’, must partially account for such disparate results.

The classification of development based on GNI indicators is also the source of much criticism, as poverty and development cannot be understood purely in these terms. The World Bank admits that ‘classification by income does not necessarily reflect development status’ (World Bank, 1996), and this is likely because it does not account for informal work, unpaid work, or traditional subsistence or bartering systems of exchange. In fact, the reality of world poverty is sometimes dramatically obscured by manipulation of income statistics (Chossudovsky, 1999). Where poverty rates defined through exclusory, arbitrarily set, and manipulated per capita income neglecting key social variables, “the World Bank figures serve the useful purpose of representing the poor in developing countries as a minority group” (ibid., pg.43). Although poverty is defined through income statistics and consumption levels, absolute poverty is materially evident in the lack of adequate food, sanitation, clean water, access to public medical services, and deprivation in the inability to meet basic needs of survival (Sen, 1981).

Clearly it is problematic to measure poverty in terms of national income and other econometric indicators. A reliance on aggregate indicators and cross-country regression tables “provides limited insights into the heterogeneity of institutional arrangements across and within countries” (World Bank, 2005: 21). GNP as a measure of development can only measure market transactions at the global level, and not immaterial aspects of poverty such as oppression, exploitation and the loss of traditional subsistence production. The same is true to the gamut of measures or criteria to measure reductions in poverty that do not reflect disparities necessary to compiling a full picture of factors acting upon efforts to address it. Social exclusion is another dimension of poverty that is not reflected in income statistics, but there is a widespread acceptance of Western defined causes, dimensions and indicators of inequality and poverty, such as ‘poverty traps’ like population growth as outlined by Dasgupta (1998) and ‘partnerships’ to empower the poor. Indeed, some countries have shown growth at the national level, but aggregate income data distorts the reality of conditions within and between nations, where disparity in the benefits of growth is an important piece of the puzzle for understanding the perpetuation of poverty.

### **Development Aid for Poverty Reduction**

What may have begun as a ‘temporary’ program of reconstruction and development assistance Europe after World War II (and then spreading to the ‘developing’ world after that) may in fact be very much here to stay. Indeed, through the careful construction of a political and economic system that creates inequality, foreign aid assistance to the global south has never been so much *en vogue* as today. The ostensible goal of official development assistance (ODA) is to alleviate poverty in developing countries by

stimulating economic growth. Proponents of economic globalization say that the market economy “rests on and encourages valuable moral qualities; provides unprecedented opportunities, and underpins individual freedom and democracy” (Wolf, 2003: 47). The World Bank’s Articles of Agreement state that the Bank can lend only to projects, and that only economic criteria are to be used. Although economic criteria are the focus of this exercise, the World Bank has gone far beyond its mandate (George & Sabelli, 1994; Lateef, 1995; Culpeper, 1997; Gilbert & Vines, 2000). The constant expansion of its activities has grown to subsume issues of governance and human rights under its jurisdiction. After the international agencies turned to issues of poverty reduction as being central to the agenda of development, programs of aid became the answer to initiating economic growth through fiscal conditions aimed at opening the economy to the global market. In 2002 for instance, over 1 billion people lived in countries whose governments were preparing Poverty Reduction Strategy Papers (PRSP) as a condition for access to aid and debt relief (Seabrook, 2003).

Structural Adjustment Programs emerged as a way to export massive amounts of capital from the West for investment in ‘newly emerging economies’. To deal with their debt crises in the 1980s, aid recipient countries agreed to implement specific economic policies, include reducing government budgets, opening the economy to trade and investment, and privatizing government-owned enterprises. Petras and Veltmeyer observe that after 1983, countries needed to re-service their debts and so accepted specific conditions attached to loans, which led to further methods of control (2005: 180). The dominance of the neoliberal ideology within the international development community (which emphasizes a reduced role for the state in regulatory activities in recipient

countries of aid) is argued as having a positive effect for Western economic investment and interests. Authors like Robert Biel in *The New Imperialism* (2000) categorize development as ‘modernizing’, and as part of the growth of global capitalism preventing the formation of new national economies. This process has also been referred to in some ways as “economic warfare against sovereign governments and national economies, where nations are taken over with their own money” (Austin Fitts, 2005: 2). On the dynamics of aid in this progression, Hayter (1971) presents the argument that aid and subsequent servicing of debt through interest payments on new loans becomes less of a war on poverty, a more a war on the poor, using their own money to further finance their enslavement and profits for the imperial state.

To be clear, neoliberalism does not refer to a variation on ‘liberal ideas’ (i.e. a softer form of imperialism couched in rhetoric about social progress). Neoliberalism refers to a set of economic policies, not to the, say, faux-liberalism of the American Democratic Party. The term neoliberal is identified in the popular vernacular through the ‘rule’ of the market, decentralization, deregulation, and privatization. Where developing countries are concerned, structural adjustment has “removed the state as the principal agent of development, while private agencies are playing an increasing public role as they engage in public service delivery” (Dansereau, 2005: 47). American multinational corporations are seen as consolidating more leverage through the World Bank as foreign direct investment supplants the ability of governments in recipient countries to retain control over the very basic of social services. These processes are based on a combination of neoliberal economic policies and the structural properties inherent to the later stages of capitalism.



Hayter & Watson explain that the Bank will never support policies that are not well-matched to the interests of the capitalist powers who finance them, and the prospect that such “austerity programs” will result in the ability of recipient countries to service existing debts from previous aid (let alone reduce the incidence of poverty) is minimal (1984: 244) as it would involve “a change of ownership in the means of production” (Petras & Veltmeyer, 2005: 47). It is difficult to imagine sometimes how ‘donors’ insist that these programs are in the best interests of recipient countries when the results of these projects on poverty and social exclusion suggest the opposite, as explained in Chapter IV. In *Aid as Imperialism*, Teresa Hayter (1971) argues, as in her other works, that poverty is created and maintained through development aid expressed as a creditor oriented policy.

One of the primary goals of structural adjustment programs is the focus on comparative advantage principles by privatizing and exporting basic commodities to the global market after devaluing currency for a ‘competitive edge’. Conditions attached to aid for developing countries include these measures in an attempt to transfer control of goods and services provision from national governments and into the hands of private companies. In the face of confusion on whether aid is the answer to poverty development, the United Nations’ World Economic Situation and Prospects 2006 insists that in order to achieve the MDG of halving poverty by 2015, growth rates need to be strengthened by more official flows of development assistance and building an enabling climate for business investment (UN, 2006). In connecting economic growth to poverty reduction, the report points to slow progress towards improving the multilateral trading system from a decrease in aid (despite huge increases in FDI during times of declines in aid).

HIPC, the original ‘debt relief’ initiative of 1996, was extended in 1999 as The Enhanced Heavily Indebted Poor Countries Debt Relief Initiative and was seen as crucial to poverty reduction strategies. Now the World Bank admits that debt is a result of bad policies, yet the eligibility criteria for Enhanced HIPC refinancing required that a country be very poor, have unsustainable debt burden, and pursue good policies. The World Bank insists that aid and debt relief should use “instruments that provide incentives to use the resources for poverty reduction” (World Bank, 2001: 203). Debt relief, rather, is for servicing existing debt, while having the tendency to create more. But in order for HIPC countries to finance poverty reduction strategies and reach “debt sustainability”, “a universal, rule-based, open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting countries at all stages of development” (UN, 2006: 29).

Time after time, the Bank insists that “aid can be highly effective in promoting growth and reducing poverty” (World Bank, 2000: 73). The World Bank’s 2000/2001 *World Development Report Attacking Poverty*, suggests that decline’s in aid during the 1990s “has been costly for many countries” (World Bank, 2001: 189). It contends that despite ‘aid fatigue’ in donor countries, there is an immediate need to reform aid by providing more to fight poverty (ibid.). For the Bank, aid is not working because despite continued flows of donor aid, countries fail to implement conditions for aid, and outlined four key areas of international action for fighting poverty: 1) expanding market access in rich countries for developing countries’ goods and services, 2) reducing the risk of economic crisis, 3) encouraging the production of international public goods that benefit poor people, and 4) ensuring a voice for poor countries and poor people in global forums

(ibid., pg.179). When referring to the MDGs, the Bank assures that “developing countries themselves will largely determine through their own policies whether they achieve the international development goals” (ibid., pg.191).

At the 1973 Annual World Bank Meeting, Robert McNamara spoke of the importance to redirect aid towards the poor whose life is “so degraded by disease, illiteracy, malnutrition and squalor as to deny its victims basic human necessities” (Haytor, 1982: 89) which led to a flurry of research on basic needs, including the publication by the ILO and World Bank called *Redistribution with Growth*, which included calls for improvements in agricultural methods. In raising agricultural productivity for ‘international public goods’ for export (World Bank, 2001: 181), high yield seed varieties including genetically modified maize are seen by the Bank and others (including massive US based pharmaceutical multinationals who have, for all intents and purposes, virtually bought most major seed companies) as a way to help relieve the ‘world’s food problem’. But the Bank reminds that “donors must understand that policies are driven primarily through the domestic political economy – and that donors are simply not very effective in influencing them” (ibid., pg. 199).

Perceptions of a negative impact on the poor through ‘development’ aid in its many applications applied within a narrow scope, is still lacking in the sense that aid is often seen as not working due to strictly internal factors such as ‘corruption’ and inefficiently or improperly applied fiscal adjustment programs (Collier, 2007; Banfield, 1963; UNDP 2003 & 2005). While it is conferred that aid may not even be the key to development, it may, as both Milton Friedman (1958) and J.K. Galbraith (1962) have accentuated, do much to ‘retard’ development if improperly used. Former World Bank economist William

Easterly (2006) does not consider economic growth as beneficial to nations who have a stake in ensuring open economies, nor does he consider the benefits of aid assistance for the same reason. Regardless of these warnings, The *2005 Human Development Report* subtitled *Aid, Trade and Security in an Unequal World*, called for a strengthening of the links between human development and trade, while increasing the quality and improving the quality of aid “as one of the most effective weapons in the war on poverty” (UNDP, 2005: 7). The same report concedes that in 2003, 18 countries with a combined population of 460 million registered lower scores on the Human Development Index (which measures a variety of ‘development’ indicators) than in 1990 – an unprecedented reversal (ibid., pg.3). Dispossession of the means of production means that you have to work for someone else. In a capitalist driven world economy, the recipient country of aid and investment becomes a source of cheap labour to create ‘macro-economic stability’ through liberalizing mechanisms for exporting goods and importing US capital investment. The gap in wealth and income can thus be seen as a combination of strategic and structural factors, placing the burden of ‘development’ on poor nations. In the 1990s, unprecedented levels of corporate mergers and acquisitions breathed new leverage into privatization and other such residues of austerity programs, and echoed by World Bank literature. Not by expanding production necessarily, this was achieved as all capitalist growth is: by cutting costs and consolidating profits through greater ‘efficiency’. More capital is always needed to finance more development.

## **A Pre-Mortem of ‘Success’ and ‘Failure’ of World Bank Development Aid**

The present concern of this exercise on the World Bank is the course of development involving changes and transformations in underlying political and economic structures. The question of whether Bank affiliated aid policy is ‘working’ or ‘failing’ is of central significance here, as a matter of perspective from which to first evaluate evidence of success and failure of World Bank aid applied to poverty reduction, and to then apply this conclusion to the possibility that aid is ‘working’, and is successful and effective in another intended matter altogether. In *Aid: Rhetoric and Reality* (1985) Teresa Hayter and Catherine Watson agree that whereas aid fails to alleviate poverty even in the immediate context within which it is provided, its overall purpose is the preservation of a system which damages the interests of the poor in the so-called Third World. Furthermore, economic conditions associated with structural reforms during the 80’s have not provided the requisite stability for near irreversible transitions. To the extent that the ‘effectiveness’ of aid is how one may measure it’s success, “aid from the major Western powers therefore probably does more harm than good” (pg.1). For Haytor the agency of development aid may exist for the purpose of solidifying capital concentration and political hegemony, with a necessary outcome of maintaining poverty and deepening inequalities.

Major lines of criticism have been leveled against the ‘effectiveness’ of Bank work by reformists and realists alike, where colossal investment, bureaucracy, and rhetoric on poverty reduction for decades have just not materialized – poverty and inequality have increased by folds. When a planned target continues to evade the best of efforts, or fail, there are three possible excuses used to explain this for Easterly (2006). The first for him is that it is everyone’s responsibility for being accountable for the

failure. The next is to claim that you were working towards a different target. And the third is to defer the failure to surrounding circumstances like natural disasters or high oil prices. Nobody is individually responsible for any one result. Although it is easy to identify clear omissions and gaps in his reasoning of and for aid in general, he purports that the actions of individual bureaucrats as factors that affect implementation of development policy on this global level, is very limited.

Many of those invested in the project of development implore that despite past failures, aid should be strengthened and increased in order to be more effective and efficient (Degnbol-Martinussen & Engberg-Pederson, 2003; UNDP, 2003, 2005). Strangely, these same arguments infer that foreign aid policy has seldom been the central instrument used by donor countries to safeguard their political and national security interests. This proclamation is highly out of sync with classical policy making, as elaborated on in the review of American foreign aid doctrine and motives discussed later in Chapter V. Some go further to suggest that “the same factors are valid for economic and commercial interests. Officially, these have been of secondary importance for foreign aid policies, and have only been a modest motivating factor for providing foreign aid” (Degnbol-Martinussen & Engberg-Pederson, 2003: 13).

Proposals calling for more aid based on presumed ‘failures’ of countries to properly implement adjustment, suggest a different (yet still capitalist) model of development in “more expansionist policies [and] less hostility to import controls” (Haytor & Watson, 1984: 248). In her literary response the Brandt Report, Teresa Haytor explains that like most literature on development and growth that fails to address why poverty exists in the first place, the report (as well as proposals for reform within the

Bank) “are designed first and most crucially to ensure that the existing world economic system functions smoothly” (Haytor, 1982: 15). The prevalence of ambiguity and absence of consensus on this issue constitutes grounds for suspicion. Where “it is precisely the orthodox development strategies that have been perused in this war on poverty that have in fact succeeded in preserving and strengthening the underlying system that produces and perpetuates the problem of world poverty, (O’Malley & Veltmeyer, 2006: 305), confusion about the real goals of development within the expanding capitalist system are also obfuscated. For some, aid is more reasonably considered as a cause of poverty (Chossudovsky, 1999; Haytor, 1982), but is also considered a cause of poverty from the perspective of ‘economic growth’ and ‘globalization’, where the intention of aid is supposedly in the interests of the poor (Collier, 2007; Sachs, 2005). In the instance of failure, apologists for growth policies associate it with the identification of “traps” that prevent such countries from raising standards of living, including the presence of natural resources and ‘bad governance’ (Collier, 2007), rather than seeing poverty as an originating condition (McMichael, 2006: 417).

When confronted with the opposing realities of aid and poverty reduction, restoring the legitimacy and increasing the effectiveness of the world largest development institution seems to be of utmost significance, calling for significant increases in aid to remedy this, and uncritical of the original goals of aid despite even their own statistical analyses. Apologist planners and researchers at the World Bank continue to insist that if development aid is not working, reasons for this failure include inefficient application of policies as well as recipient government corruption, among other ‘internal’ factors. William Easterly will claim himself as a critic of the World Bank, although he absolves

the agency of any responsibility for its actions, and contains the line of criticism to failed economic policies from poor or incorrect application. The facts of course, may tell a different story. Through a narrow selection of topics and concerted framing of issues, the Bank is able to determine, shape, and bind the debate on development within strict limits. In his discussion on economic ideology and the distortion of causes of global poverty, Chossudovsky (1999) reflects that critical analysis is discouraged, and that the official neoliberal dogma “creates its own ‘counter paradigm’ embodying a highly moral and ethical discourse. The latter focuses on ‘sustainable development’ and ‘poverty alleviation’ while distorting and stylizing the policy issues pertaining to poverty...this counter ideology rarely challenges neoliberal policy prescriptions. It develops along side it in harmony rather than in opposition to the official neoliberal dogma” (pg.42). Criticisms from within the Bank however, are contained to how the policies have been implemented, and never is there criticism of the system itself.

One way to approach the problem is that development aid is not working to effectively reduce poverty not by error or because there is a flaw in the system, but because the ultimate goal of development aid is different from its stated objectives. What does development aid accomplish? Well we know what it largely does *not* do, and that is to effectively reduce poverty and social exclusion, as will be evidenced in Chapter IV. We can also speculate on what it *does* do well. Within the current global capitalist economy, and with unlimited resources at its disposal, the world’s only economic superpower can effectively work to consolidate economic imperialism through, and along with the help of its agent in the World Bank Group. Any poverty reduction measured by economic growth



at the national level of production, neglects to incorporate analysis of growing disparity between people and externalizes the social and environmental costs of ‘development’.

In her book *The Creation of World Poverty*, Hayter points out that foreign aid programs do tend to produce very encouraging business conditions for working in developing countries. In what she refers to as three major benefits to American corporations, substantial markets for US goods and services, the development of overseas markets for US companies and a free enterprise system in which United States firms can prosper” (Hayter, 1982: 83). President Kennedy’s view of foreign aid as early as 1961 was as “a method by which the United States maintains a position of influence and control around the world” (pg.83). According to Petras & Veltmeyer (2005), development projects create “conditions generated by their implementation [that] make aid a catalyst of economic underdevelopment and regression” (pg.185). In the basic sense that aid and development are predicated on programs that serve the economic interests of the ‘donors’, the “historic record shows that, in this sense, foreign aid and the development project generally have been eminently successful” (ibid.). Through aid, an attractive ‘investment climate’ (opportunities and incentives, efficient infrastructure and finance markets) removes obstacles and barriers to competition and fosters productive private investment which leads to growth and poverty reduction (World Bank, 2005:19); but also places the government policies of a developing country squarely responsible for fostering such a welcoming milieu. Still, the 2005 World Development Report draws a direct correlation between increased private investments and the reduction of costs of goods consumed by poor people – while improving living conditions directly (ibid).

This thesis will advance the understanding of the counter indicative results of poverty reduction through existing institutional arrangements governing the conceptualization and practice of ‘development’. The absolute necessity of this type of study is truly indicative in the confusion exhibited among development planners and so-called ‘front line workers’ in developing countries working through a variety of agencies in the pursuit of justice with equality for the poor. Furthermore, theories of development still suffer from conceiving the faulty syllogism of aid and ‘globalization’ of economic growth as intending to reduce the poverty it largely creates on the back of capital export and foreign private investment – creating debt and increased poverty. Is there a war on poverty or a covert war *on* the poor? Conflicting opinions on the global impact of World Bank development aid are easy enough to discuss at a theoretical level, but less so concealable through the bank’s own aggregate data on poverty reduction projects and loans. Paradoxically, the economic policies promoted by The World Bank are usually viewed as failing but worthy of reform, which often prevents us from recognizing them as distinct political arrangements designed to meet far reaching goals of political domination and capital consolidation. Theorists from the post-development school often claim that development has failed. This thesis works from the idea that aid is not failing to do the things that it is designed to do. They are instead, designed to promote development, just not the kind of development that is intended to lead to poverty reduction. The project of ‘development’ appears to be wrongly defined as ‘failing’, insofar as its presumed failure provides the basis for legitimizing its extension.

A gradual move away from attention to economic indicators to those of literacy and education levels to measure poverty, in this authors opinion, further obfuscates the

effects of aid in developing countries into further realms of obscurity; although income based indicators are also easily manipulated and do not reflect other aspects of poverty – but the results of aid are more easily concealed under such rhetoric. To this end, a structural and historical approach to imperialism will be employed in order to explore the imperatives that explain behavior and exploitative social structures, as structure plays a determining role in shaping the actions of individuals, states and organizations. In contrast to post-structuralism that is allergic to a positivist approach, the more objective natures of development processes will be emphasized through a comprehensive historical-economic analysis of the effects of development aid on poverty levels and debt. In other words, society must be analyzed from within the structures through which development occurs. Structures of organizations are determined by agency, and so successive chapters will therefore illuminate the dynamics of the power and exploitation employed. This approach will help to clarify the research problem and context of World Bank aid and poverty reduction within observed historical context. Where debates on imperialism are increasingly conducted within the context of a market-versus-State dichotomy, they become a central point of discussion, as the preeminent political motives and connections feeding the drive for capital are fundamental to understanding ‘international development’.

## Chapter III:

# Structural and Political Economics of Imperialism

In this chapter, central writings and arguments on imperialism will be presented and evaluated with an eye on the centrality of capital exported from imperialist centers to developing countries applied as poverty reduction programming through aid and investment. A number of key concepts and terms will be isolated to help the investigation and subsequent analysis of the imperatives of capitalist expansion and concentration subsumed within aid and poverty reduction ventures of the World Bank and related agencies of development. Arguments surrounding the nature of imperialism, its economic base, as well as the role of the imperial state versus ‘globalization’ which removes political accountability within the global economy, will be offered and appraised to furnish a transition to the next chapter on the effects that capital export in the form of aid and foreign direct investment has had on global poverty over time. The role of the governments of aid recipient countries should be distinguished from that of the imperial state. Where the imperial state accentuates the role of politics in the driving of its own the economy, it simultaneously discourages ‘strong’ states abroad by imposing conditions in line with its complementary corporate directives.

This chapter will pay special attention to ensuring a presentation of the chronological development of research within a framework for making distinctions between perspectives, and for placing the context of thought and praxis within a historical structure and context of capital export as aid, and resulting conditions of debt. Insofar as this analysis will focus on the primacy of national interest through state imperialism, the

export of finance capital will take center stage as the central tool of capital accumulation and necessary dispossession at this advanced state of capitalism piggybacking on ‘development’. The literature to be reviewed in this section should help to preview the process of capital export and repatriation as it relates to the primacy of prominent donor country representation like the United States within such ‘poverty fighting’ institutions as the World Bank. The centrality of imperialism to any study of development and aid cannot be overstated given present realities of advanced global capitalism as a system built on both structural political and economic properties, one that provides an historical account of the processes of capitalist accumulation, concentration, and its merging through the export of finance capital into the most advanced stage of capitalism operational at the global level of exploitation for profit – now coined ‘poverty fighting’.

Within classical political economy there is no separation of economics as such. That all political decisions imply some economic consequence or decision, reiterates the centrality of economics at the very core of social and political analysis, not least within the field of development. The structural approach to the global political economy is thus concerned with “the manner in which those nations located at the centre of the global economy created and continue to maintain structures and patterns of exchange that systematically benefit these centre nations at the expense of those in the periphery” (Petras, 1978: 24), including the role of third parties like global ‘development’ institutions or banks. This theoretical perspective will be employed for its ability to show the expansion and contraction of economic state power in solidifying control over money, resources, and most importantly, the public consciousness around the very nature of

development. It will also serve to validate the choice of research methods, as well as to support and set limits to the analysis.

Critics of those studying the economics of imperialism had previously sent the concept back to the realm of political ideology and away from its essential root in economic relations or forces of production in the global economy. In bringing it back to the forefront of analysis of ‘international development’, one must examine central economic elements, revealing the import of critical Marxist theory for debate and proper understanding of the pervasiveness of poverty, and the complementary political interests inherent to its growth. After experiencing a decrease in scholarly interest following official decolonization, theories on the economic core of imperialism have resurfaced at the top of the agenda as a respectful concentration of study, as well as providing for an appropriate analytical framework for explaining current forms of political and economic domination that cannot (and indeed should not) be explained in the context of ‘globalization’. At the most basic economic level, capitalism functions to accumulate – to make a profit – this is its fundamental law.

### **The Economic Core of Imperialism**

Imperialism can be defined, in part, as a form of international hierarchy in which power is exerted by one political entity over and within another, and more specifically, the economic domination and exploitation of one country by another. As an analytical concept, Michael Doyle (1986) posits that it is a relationship “of political control imposed by some political societies over the effective sovereignty of other political societies...imperialism is the process of establishing and maintaining an empire” (pg.19). Domination here can mean the ability to decide policy. Status quo thinking tends to speak

only of imperialism in its political and cultural form, avoiding the economic mechanisms and necessity and employed that complement national interest. The affinity between domination, exploitation and surplus appropriation can explain the typically derogatory status of the term, and this is largely evaded in so-called critical circles, relegating imperialism to the forces of 'globalization'. "The essence of the Marxist model is that capitalism contains by its very nature an expansionist force: "the production of capital to produce more capital" (Barratt Brown, 1974: 57), hence inevitable exploitation. The quintessence of Bukharin's thesis is that competition on a world scale "forces capitalists everywhere to seek additional surplus in order to capitalize the profits they have already made" (Barratt Brown, 1974: 56). A basic point of initial control is found in the transition from production for use to production for sale on a global scale.

Writing in 1902, John Hobson (a bourgeois liberal ideologue with reformist overtones) grounded the motivation for overseas expansion in the necessity for advanced capitalist states to export their surplus capital (Hobson, 1902/1965). Building on Hobson's (as well as others) economic analyses and on that of export capital, Vladimir I. Lenin's eminent booklet *Imperialism: The Highest Stage of Capitalism* (1916) viewed imperialism as a special stage of capitalism evolving from the existing properties of capitalism itself. Karl Marx himself did not advance a theory of imperialism (although he did advance a partial theory of 'underconsumption' to be discussed later), as he was writing about the nature of capital before it had revealed extreme divisions between wealth and poverty on a global scale beyond formal colonialism; and certainly before the pace of growth witnessed since the beginning of the project of 'development' over the past 60 or 70 years.

What is considered as the classic Marxist analysis of imperialism is Lenin's aforementioned influential revolutionary text, where he discussed the tendency for monopoly of finance capital, and in doing so, building on the work of Rudolf Hilferding's *Finance Capital* (1910/1970), and later carried forward through Nicolai Bukharin's *Imperialism and the World Economy* (1929/1966), where he transferred Hilferding's principles of monopoly and applied them to the transformation of the world economy, through capitalist expansion. Bukharin held that "there is no doubt that the explanation for the economic roots of imperialism must be deduced from the laws of capital accumulation, since, according to common empirical knowledge, imperialism as a whole is nothing but a specific method of accumulation" (Luxemburg & Bukharin, 1972: 238). In discussing his critique of Luxemburg, Bukharin deduces the cause of capitalist expansion as those difficulties arising from "an absolute and constant over-production... [and] in the possibility of acquiring a larger profit from the outside" (Luxemburg & Bukharin, 1972: 243) – an economic imperative.

For Lenin, European colonialism was not industrializing economies in the vision of Europe, but instead retarding them in order to exploit them. In relation to Lenin's appraisal of capital export as a central element of state imperialism, his conception helped form the basis of understanding the fundamentally economic essence and 'parasitic' nature of imperialism that he thought stifled the growth and independence of poor nations deliberately; even while the decay of capitalism under imperialism (its death agony) was occurring. Before he dealt specifically with finance capital, he spent considerable time reviewing the principles of what he thought to be the increasing role of banking capital. He later than referred to finance capital as Hilferding did: as "capital controlled by banks



and employed by industrialists” (Lenin, 1970: 52; Hilferding, 1912: 338) returning enormously high rates of profit. Differing from Lenin, “Hobson thought imperialist expansion was economically unprofitable and a waste of resources” (Desai, 1989: 21).

Outlining five basic features of a definition of imperialism, Lenin offered: 1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life; 2) the merging of bank capital with industrial capital, and the creation, on the basis of this ‘finance capital’, of a financial oligarchy; 3) the export of capital as distinguished from the export of commodities acquires exceptional importance; 4) the formation of international monopolist capitalist combines which share the world among themselves, and 5) the territorial division of the whole world among the biggest capitalist powers is completed (Lenin, 1970: 6). Speaking on these, Willoughby (1986) proffers that “points 1 and 2 refer to the structure of capitalist organization: the creation of monopolies, and the rise of finance oligarchy based simultaneously on industrial enterprises and banks, and point 3 argues that the form of international capital expansion is characterized by the export of money capital rather than increased commodity trade” (Willoughby, 1986: 4). For the purposes of expressing imperialist tendencies through World Bank aid on behalf of donor investors, the first three of Lenin’s described features will be discussed at length, in sequence, and carried over to Chapter V for analysis of data on poverty reduction and other influencing variables on the World Bank. These are:

- 1) the concentration of production and capital has developed to such a high stage that it has created monopolies which play a decisive role in economic life

2) the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a finance oligarchy

3) the export of capital as distinguished from the export of commodities

For Lenin the deepest economic foundation of imperialism is monopoly, expressed through the parasitism of finance capitalism (as opposed to earlier capitalism based on industrial capital). In fewer words, however, he proclaims "Monopoly! This is the last word in the latest phase of capitalist development" (Lenin, 1970: 30). A defining the condition of imperialism, monopoly is the current dominant form of consolidated capital, which "intensifies the anarchy of capitalist production" (Sweezy, 1978: 318). Monopoly capitalism is also where the corporation helps consolidate capital, and entails "a sharp rise in the export of capital. The tie between the export of capital and imperialist expansion is recognized by the obvious need on the part of investors of capital for a safe and friendly environment" (Magdoff, 1978: 119). Where competition became monopoly is the greatest contradiction at this advanced phase, and monopoly also marks "the transition from capitalism to a higher system" (Lenin, 1970: 105), or imperialism. Dominant state monopoly capitalism was and is identified as imperialism. As a special and advanced stage of capitalist accumulation and expansion, it "combines the strength of the monopolies and that of the state into a single mechanism for the purpose of enriching the monopolies" (Leontyev, 1972: 124). Plainly put, monopoly stimulates capital export (Sweezy, 1942: 306) for profitable investment, and absorbs surplus through private consumption (Baran & Sweezy, 1966: 87).

Capitalism's tendency for monopoly is a necessary part of its development through historical changes identified by the expansion of productive forces through key

mechanisms and relationships, usually at the expense of the poor. This is a matter of historical record. For Lenin, private ownership of the means of production provokes greater unrest among the working class in this stage of capitalist development, due in part by the exponential growth in the rate of exploitation. Kautsky felt that the development of monopoly and finance capital would lead to all imperial states entering into a joint project to exploit the rest of the world together, with greater inter-imperialist rivalry as leading to peace and cooperation through regional alliances. Lenin sees these same processes of competition as leading to war, which is what happened in World War I when he was writing his seminal piece. More specifically, Bukaharin and Lenin's theory of uneven development "emphasized the way in which changes of relative economic strength in the international arena accompany changes in political strength" (Townshend, 1996: 57), and is provoked by the emergence of monopolies.

Finance capital is capital controlled by banks and used by industrialists (Hilferding, 1910/1970). To illustrate the merging of bank capital with industrial capital, and the creation, on the basis of this 'finance capital', of a finance oligarchy, Lenin says: "It is characteristic of capitalism in general that the ownership of capital is separated from the application of capital to production, that money capital is separated from industrial or productive capital, and that the rentier who lives entirely on income obtained from money capital, is separated from the entrepreneur and from all who are directly concerned in the management of capital. Imperialism, or the domination of finance capital, is the highest stage of capitalism at which this separation reaches vast proportions. The supremacy of finance capital over all other forms of capital means the predominance of the rentier and

of the financial oligarchy; it means the signaling out of a small number of financially 'powerful' states from among all the rest" (Lenin, 1970: 69).

Lenin's conception of 'finance capital' export grew from Hilferding's study of tariffs, where he says that "from being a means of defense against foreign conquest of domestic markets, they become a means of conquering foreign markets, from a weapon of protection for the weak they become a weapon of aggression for the strong" (Hilferding, 1923: 384-9, cited in Barratt Brown, 1974). Of finance capital and the state Hilferding says that "finance capital finally needs a state which is strong enough to carry out a policy of expansion and to gather in new colonies (pg.300).

The dynamic manifestations of the accumulation process of capital "is signaled by trade, banking and productive investment (FDI), as well as the creation of capitalist class structures" (Willoughby, 1986: 20). And because capital is always evolving, "as finance capital emerges, the ability of monopoly capitalists to distribute their money capital to various accumulation projects expands" (ibid., pg.10), where all capital merges and "now appears as a unitary power which exercises sovereign sway over the life processes of society" (Hilferding, 1910/1970: 234-235). Political reins steering these economic forces are absolutely necessary to control its movement at the global level.

Lenin explained that the export of capital was "one of the most essential economic bases of imperialism" (Lenin, 1970: 120) creating international conditions of exploitation (through labour) within developing countries directed by one major power. For Magdoff, the export of capital was not necessarily stimulated primarily by the pressure of a surplus of capital (1978) and the absolute inability to spend it at home. It was the opportunity to invest it at a higher rate of profit elsewhere. Rosa Luxemburg reflects that "if capital is

sent abroad, this is not done because it absolutely could not be applied at home, but because it can be employed at a higher rate of profit in a foreign country” (Luxemburg & Bukharin, 1972: 245).

The expansion of capital both geographically and in dollars into non-capitalist spaces is linked to the exploitation of these forms by capital gain in the form of surplus profit and investment assurances. Indeed, “export capital from the imperialist centers has “favoured the increased growth of finance capital and huge transnational monopoly corporations” (Vilas, 2002: 70). In countries where profits have reached enormous levels, or a surplus of capital, the next logical step is expansion in search of more profit through loans and direct investments in industry. Lenin develops his concept of parasitism from effectively consolidated finance capital, where “the export of capital abroad becomes a means for encouraging the export of commodities” (ibid., pg.77), especially through extractive industry. With control over the international rules of aid and trade, it is rarely a surprise to find who benefits from ‘development’ under capitalism.

Although Druker (1997) is right that international movements of capital and not the international movements of goods have become the primary engine of the world economy, and that in some ways the ‘*centers* of the world economy have shifted away from the developed countries’, this is not so in terms of the centers of decision making and control. Knapp (1957) observes in this same thread that capital exports do not so much facilitate “a real transfer of goods and services, as a steadily rising indebtedness in the borrowing countries” (Barratt Brown, 1974: 173). To the extent that this is so, capital exports to not represent the transfer of real assets, only fictional ones.

Lenin's famous pamphlet was a response to Kautsky's 'super' and 'ultra' imperialist theories, although it heavily drew from the Work of Hobson, and the earlier works of Hilferding and then Bukharin. At the end of imperialism, Lenin saw capitalism as turning into some sort of parasitic, 'moribund' capitalism (that will lead to its eventual decay). On the other hand, Kautsky's apologetic and reformist ultra-imperialism (as well as Hardt and Negri's current state-less Empire of corporate capital) maintains a tenuous grasp on the idea of the peaceful emergence of an indifferent global capitalist empire free from nation state interests or regulation from any human intervention or specific interest. Lenin accuses Kautsky of detaching the politics of imperialism from its economics (Townshend, 1996). But it is Bukharin who explores 'national' groups of finance capitalists, and that "the fighting force in the world economy depends upon the power and consolidation of the 'nation', upon its financial and military resources" (Townshend, 1996: 54). Both Lenin and Bukharin viewed Kautsky as a reformist, and they chose to work from the Marxist proposition that contradictions between the forces of production and capitalism would arise under imperialism, inevitably leading to revolution. Akin to criticisms of World Bank apologists and reformers such as William Easterly (2006), Jeffrey Sachs (1999 & 2005) and George Soros (2000), so Lenin charges Kautsky with 'conciliation with imperialism', "because a 'fight' against the policy of the trusts and banks that does not affect the basis of the economics of the trusts and banks is nothing more than bourgeois reformism and pacifism, the benevolent and innocent expression of pious wishes" (Lenin, 1970: 111).

Now, as always, imperialism is "not simply a policy but a systematic reality arising from the very nature of capitalist development" (Cox, 1964: 125) to be exercised

beyond the domestic sphere. Considerable emphasis herein will be placed on the conditions materialized as imperialism outlined by Lenin (with knowledge of the shared beginning of his theorizing) in an attempt to draw connective patterns between those stages identified through mechanisms of US-directed World Bank development as export of finance capital for investment. The very economic basis of imperialism requires a political analysis of economic ‘connections’ aforementioned by Lenin.

### **The Necessity of Imperialism**

“A ‘law’ implies an inner essential connection of phenomena” (Lyontyev, 1972: 15), and “to understand a phenomenon means to establish a causal relationship between it and another phenomenon or series of phenomena” (Bukharin, 1966: 130). Although early foundational Marxist theorists such as Lenin, Bukharin and Hilferding agreed that imperialism was a necessary stage in the development of capitalism, the debate surrounding whether imperialism was connected to capitalism continues to simmer, and is hotly contested. For the most part, all classical Marxists agree that imperialism must be explained in terms of the development of capitalism from the historical materialist approach.

Bukharin explicates that “to understand an historic event means to represent it as the consequence of a definite historic cause or historic causes; in other words, to represent it not only as an ‘accidental’ entity caused by nothing, but as an entity inevitably flowing from the total of given conditions. The element of causality is the element of necessity (‘causal necessity’) (Bukharin, 1966: 131).

Lenin drew considerably from the 1902 work of John A. Hobson for his focus on the domination of finance capital. It is argued that Hobson was the first who found an

economic basis for imperialism although he did not see imperialism as a requirement, necessary stage, or logical extension in the development of capitalism. John Willoughby's main departure from Lenin's theory of Imperialism is that Willoughby also did not see it as a necessary component of capitalism. Willoughby (1986) breaks with traditional Marxist theory in suggesting that contemporary political and economic structures are not the direct expression of an unfolding logic in capital expansion, and that capitalism can exist without the tendency towards imperialism, stripping him of any meaningful structural-historical perspective. Instead, he relies on the limitations arising from a systems-only approach to imperialism. Bukharin reads the 'necessity of imperialism' as the impossibility of conditions needed to overcome it but does not concede that it is the very historical tendencies of capital to expand, that has made imperialism an historically necessary stage of it. He supposed instead, that capitalist expansion and development could be even among capitalist states, where Lenin knew this relationship would never be stable.

Where Willoughby does not agree that capitalism must expand, he fails to explain the tendency for competition to lead to monopoly within major industries and imperial states, which leads to growing inequalities and the uneven exploitation of poor nations, based in part by political alliances. He wrongly offers that this process from capitalism to imperialism is a consequence of reductionist tradition in Marxist analysis, and that "advocates of the Leninist theory merely vaguely assert that imperialism is capitalism and therefore since capitalism exists so must imperialism" (Willoughby, 1986: 7). He suggests moving away from what Arrighi (1978) calls a "hypothesized statement of fact – which may or may not be true" (pg.10-11) and returning to a more prosaic definition of



imperialism that considers it as attempted practices of domination over one territory and/or nation by the state and/or ruling elite which represents another territory of nation” (Willoughby, 1986: 7). Where his attention to the imperial state as a central actor is on point, he is only considering half of the equation, failing to recognize the structural elements of capitalism that require eventual imperial tendencies as it expands. Cox (1964) holds a similar view on imperialism as an important, yet not necessary, aspect of capital expansion and consolidation. He sees imperialism as merely a policy of capitalism where “imperialism is therefore a vital means by which outstanding capitalist nations seek to stabilize and expand their commercial opportunities” (pg.137). Apparently imperialism can be turned on and off depending on the policy prescriptions at hand. These analyses of imperialisms’ place in capitalist development are misled and non-revolutionary.

Precisely because domination facilitates monopoly and exploitation, the essential directive of capital must also be to exploit and create profit through investment abroad, revealing its parasitic nature and necessary imperial tendencies. Imperialism is an unshakable eventuality: the most advanced and last stage of capitalism. It is therefore a necessary component therein. In Lenin’s view, imperialism is defined within a capitalism which has completed its initial development, and the central contradiction inherent to capitalism is evident in the globalizing dynamics of competition at the monopoly stage of capitalism. Pieterse (2004) argues that Lenin’s theory in which imperialism is the highest stage of capitalism “fails to explain when imperialism does not occur and therefore fails to explain when it does” (pg.27). This confusion or “attack on structuralism and the possibility of social science predicated on it” (Veltmeyer, 2001: 597), is typical of theoretical perspectives of the ‘post’-nature, disregarding the particular political historical

patterns of capitalist development that inform how we define current conditions produced by the evolution of imperialism (as a part of the structure of capitalism). At best, it is a misreading of Lenin's text and creation of arbitrary interpretations. Post-modernist analysis of this breed only considers socially constructed meanings, denying the fact that power is rooted in a material world, and lies outside the domain of economics and history with its obsession over the 'meaning' of everything.

### **Imperialism and Globalization**

Some have argued that classical imperialism was dealt a deathblow by the Second World War, ushering in the 'New Imperialism' (Biel, 2000) and a 'New System of Globalization' (Amin, 2002). Proponents of the 'New Imperialism', according to John Bellamy Foster, must eschew all radical notions that connect imperialism to capitalism and exploitation" (Foster, 2002). Notions of empire without imperialism, for example, places the ultimate processes of capitalism outside the direct strategic field of political interests and control within the global economy and relegates them to that outside the political arena, making capitalists very happy. Instead, blame is squarely placed on the corporations who owe no explanation to the poor. Writers like Vilas (2002) claim that this assumed transformation or "historical break" with previous centuries of imperialist expansion is an "acceptance of the ideological distortions of those who have promoted and benefited from the current mode of this expansion" (Vilas, 2002: 70). The effect (as intended) is "to de-class popular politics and to de-legitimize the politics of class" (Pooley, 1990: 49) within the arena of development and global capitalism. It is somewhat troubling to see the level of misguided theories on the nature of advanced capitalism at the global level, described as 'globalization'.

Globalization is a term used with increasing frequency by NGOs, activists, politicians and aid experts alike to describe imperialism, but often in a vein that provides globalization as having a potentially positive and inevitable force: it just needs to be harnessed to work for the poor. Many argue that economic globalization leads to the spread of democracy or ‘good governance’. But referring to the internationalization of capital as a primarily corporate force, has achieved the escape of any effective social accountability, democratization or control. Jan Pieterse (2004) regards globalization as a “dynamic of far greater moment and historical duration than empire (Introduction) and that empire is part of globalization. She sees neoliberal globalization as creating an impact more significant than specific imperial interventions, and says that after studying imperialism for years, she is glad to give it up for globalization. She does not recognize the long standing nature of American hegemony and exceptionalism as the driving force of globalization after Europe ceded economic dominance over the global economy to the US In the Bank’s Articles of Agreement, the stated purposes of the World Bank are to assist in post-war reconstruction by facilitating investment; to promote private foreign investment by means of guarantees and participations (Hayter, 1971). Nonetheless, development aid, ‘foreign aid’ and ‘overseas development assistance’ all refer to the same set of processes that create political and economic policies. It is the understanding of these structural political elements of change within an economy that is interesting and necessary to the field of development studies at present, and they are not accurately defined as ‘globalization’.

A central debate within the literature on imperialism that typically informs the direction of any theory of imperialism is, simply, the extent to which imperialism has

transformed into one that is independent of the imperialist nation state – globalization. Whereas development is predicated on the globalizing structures and processes of state imperialism, it is worthy to note the divergences from this view, most notably the assumptions that we are entering some magical phase signifying the end of imperialism; or Post-Imperialism, namely, globalization.

Like the exaggerated argument for the autonomy of the multinational corporation within the American Empire (Korten, 1995 & Court, 2003), the claim that we are living in a period somehow *after* imperialism, fails to recognize the clear acceleration of globalization processes and consolidation of control through a variety of economic systems and other organizations under control of national governments. Jeffrey Sachs proclaims that state-led models of global capitalism are being trumped by “a recognizable international system that can be fairly characterized as global capitalism” (Sachs, 1999: 91), removing any particularly political or American economic interests in such adventures. In classic form, Sachs succeeds in diverting attention away from state power (which is the real engine of imperialism) and towards capitalist entrepreneurs and the myth of state-less multinational corporations.

In the 2000 book *Empire* by Michael Hardt and Antonio Negri, they propose that the information revolution has influenced the global market to expand beyond the capacity of the nation state to affect it. In what John Bellamy Foster refers to as an account of imperialism that seems to be attractive to ruling circles “judging by the attention given it by the mass media” (Ballamy Foster, 2001: 1), this new global “Empire” picked up when imperialism ended in the 1970s, and was followed by a new reality disassociated from state directed Imperialism. Their assessment of capitalism then, is that

it has ceased to expand. Likewise, the economic reality for Peter Druker, writing in *Foreign Affairs*, is that “basic economic decisions are made in and by the global economy rather than the nation-state” (Druker, 1997). Petras & Veltmeyer (2005) suggest, instead, a more realistic view where decisions and decision-makers of the international financial institutions are integrally linked to the imperial states and the corporations that work for them in aid recipient countries: “All of the crucial policy guidelines that dictate their loans and conditions for lending are set by the finance, treasury and economic ministers of the imperial states”, thereby strengthening the states position. The ‘system’ then is “sustained by the combined forces of the imperial state and its MNCs” (pg.16) and therefore the export of capital depends on state intervention to dispose of unfavourable barriers or political-economic restrictions to penetration. Hardt and Negri therefore fail to see the necessary connection between the use of finance capital and the state, while making good friends with those who would attest to the magical and autonomous nature of the world market as transcending or existing outside national political interests.

Today, many propose that power is no longer the exclusive prerogative of the state. Now it is increasingly exercised by multinational corporations and authors who present this argument often include other ‘global’ institutions like the United Nations agencies and World Trade Organization. For pundits of this view, imperialism is of an increasing corporate nature and further, a state-less one. On the other, more realist or pragmatic hand, these changes in the structure and function of global economic and political systems are driven not by omnipotent market forces and floating corporations, but as a result of deliberate political decisions (by the governments where the corporations are based), that continue to make conditions favourable for maintaining the capitalist

neoliberal agenda for the 21<sup>st</sup> century brand of American led imperial hegemony. The role of the imperial state as different from the role of the government of recipient countries in the aid relationship must be stressed. In this work, the role of the imperial state plays a significantly different role than the state of those governments 'imperial' through economic growth policies that supposedly lead to development and poverty alleviation but most always result in a cycle of debt and dependence. However, to their detriment, theorists of globalization and world-systems theory generally proclaim that global capitalism has no state.

Many have argued that this has indeed been the century of the corporation. As the bedrock of the market economy, corporations are not only able to effectively influence the apparatus of government, but that they are increasingly directly appealing to the World in the hopes of strategically incorporating their interests and using the World Bank as a vehicle for liberalization, and one of dispossession. There really is no significant argument that denies the fact that multinational corporations benefit economically and exert an enormous amount of pressure within a profit driven economy. Inside its home base, and through instruments such as lobby groups, legal frameworks, and the 'revolving door' between industry and government, corporations help to monopolize and consolidate capital by operating through global political and economic structures controlled from outside the confines of the recipient country of aid. Increasingly, corporations have also been able to bypass government administration by working with donors and development institutions to deliver aid and resources directly to Western NGOs working (with much autonomy and impact) in developing countries.

However, ‘global’ corporations do not create or maintain the structures of governance on which the economy is based. The centrality of the state in the creation and maintenance of the rules of the global economy adds credence to the argument that they will exploit institutions that would otherwise be viewed as benevolent. It is easy to influence institutions when you effectively control them. Critical discussions on imperialism include the role of multinational corporations in foreign direct investment and its development impacts. And where “FDI is a mechanism for empire-centered capital accumulation”, Petras and Veltmeyer argue that imperialism is a much better concept for describing and explaining development than globalization in *Multinationals on Trial: Foreign Direct Investment* (2007). The international division of labour is further sanctioned by necessary exploitation by locking countries into a macro-economic framework of integration.

Safe it to say, one of the significant differences between older forms of global expansion with that of 21<sup>st</sup> century expansion is the reach and scale of financial transfers now occurring from development aid (in the form of capital export and debt payments) and other avenues of foreign investment. ‘Globalization’ in the 21<sup>st</sup> century is still premised by the same empire building structures and process of capitalist expansion as in the past; it is only the sheer quantitative escalation that is remarkable. Indeed, on the process of global capitalist development, Petras and Veltmeyer (2001) remark that “the origins of globalization as an economic strategy is thus the consequence of an ideological project backed by state power and not the ‘natural unfolding’ of the market” (p.44). It is precisely the language of ‘globalization’, however, that has an effective impact on the

view that there is really nothing we can do to stop globalization because it is controlled by stateless companies.

Within developing countries, development initiatives of international financial institutions are strategically contracted out on behalf of 'donors' through their MNCs to weaken the government structures of previously 'backward economies'. Internationally, large multinational corporations aimed to achieve and hold a monopoly with the help of their home imperialist states, and to fix any problem of the state's ability to manage capital exports of large firms, the introduction of global institutions became useful tools of the imperial state (Cox, 1964). Recognizing the centrality of the US state also recognizes the primacy of US corporate interests. State interests are deeply inscribed into the dynamics of globalized economic imperialism, and this is expressed by the expanding scale on which that power is organized and exercised. The World Bank is seen by some as having a direct involvement in such proceedings.

In that globalization reflects the globalizing nature of state capital, a structural approach to advanced state capitalism as imperialism would render globalization and imperialism as synonymous projects. How does this affect the nature and role of the nation-state and of international institutions? Conceptualizing globalization as state imperialism, as Petras and Veltmeyer (2001) do, certainly does not constrain the meaning of Empire, as we must anchor Empire within some set of socio-political and historical conditions. What Pieterse does admit to her benefit this once, is that the idea of 'corporate imperialism' is a step too far and a contradiction in terms, for it implies non state actors undertaking political (not just economic) projects (Pieterse, 2004: 34) in the absence of political interests. What we can observe is that although the nature and principle



conditions for the exercise of state power have changed little throughout the period of ‘globalization’, the breadth and depth of them have been accelerated by various advancements over the past few decades. “Thus if there is a globalized system, it is important to know in whose interests it operates. That is, who benefits from the emergence of a global economy?” (Dickson, 1997: 49)

### **The Centrality of the Imperial State**

There is always a political and national justification for imperialist exploitation, and is available beyond the corporate jurisdiction. “The prime object of imperialism is the monopolization of the major productive capacity and the foreign trade of weaker countries” (Cox, 1964: 150), and ‘state monopoly capitalism’ incorporates the dominance of large corporations arising from the centralization and concentration of capital and growing state intervention (Bottomore, 1985: 69). From its intrinsic expansionist drive, capitalist foreign trade proceeds directly into imperialist relations by way of control over political and commercial influence (Cox, 1964), where “the income from exported capital is a major source of enrichment for the monopolies in the principal capitalist countries” (Lyontyev, 1972: 113). Hilferding (1910/1970) stressed that finance capital also needed the power of the state through tariff protection for monopoly, where higher rates of profit [are] realized by capital invested in certain lines and sent home by them” (Luxemburg & Bukharin, 1972: 245). Capital does not search for specifically colonial labour power. “Foreign investment, in its hunt for profit, looks for cheaper labour and, at the same time, the highest rate of exploitation” (ibid.). This difference, for Bukharin, is “in the remuneration of labour, which is functionally related to profit, is the true reason for the hunt” (ibid., pg.249). Capital invested in foreign trade can yield a higher rate of profit,

what Lenin referred to as ‘super-profits’ through the exploitation of labour for surplus value.

Considering the primacy of the role of the state, while considering exaggerations on the autonomy of multinational corporations and international financial organizations and structures, it would be an oversimplification and inaccurate to suggest a group of ‘international’ corporations acting autonomously of the state, manage to control the world economy. For Heilbroner (1992) “markets are a part of capitalism, but not the whole, and the discrepancy between the two is very great” (pg.73), helping to contextualize just “how the international political system shapes the international economic system” (Petras, 1978: 17). The market system is instrumental on the whole, “but markets are not the source of capitalism’s energies or of its distinctive bifurcation of authority. Markets are the conduits through which the energies of the system flow in developing countries, and the mechanism by which the private realm can organize its tasks without the direct intervention of the public realm” (Heilbroner, 1992: 74).

Capitalism needs a nation state to survive; to maintain property and provide infrastructure and create conditions necessary to accumulate capital for profitable reinvestment. To this central point, Luxemburg observes that “imperialism is the political expression of the accumulation of capital in its competitive struggle for what remains still open of the non-capitalist environment” (Luxemburg, 1951: 446). With the broadening of economic opportunity through donor induced conditions for aid in developing countries, foreign policy and trade instruments allow for a comfortable relationship of indirect political control through state based powerful corporations, who often rely on the US government (ergo World Bank contracts) for most of their income. Through its partial

reliance on US affiliated MNC's to be awarded procurements for Bank based projects from adjustment and aid, "monopoly capital needs to expand abroad, and for this purpose it requires the assistance and protection of the state" (Sweezy, 1978: 314). In this thread of analysis, the difference in hard military power and economic power and authority as exercised somewhat indirectly through IFIs by the state is legitimacy (or the presumption thereof), and this is central to understanding effective economic control. Neoliberalism was a partially disguised set of imperialist policies emerging under a set of guises such as trade agreements and loans that are brokered by international organizations and carried out by corporations on behalf of the state. Development has now become a carefully protracted scheme to protect and grow nationally based capital that is capable, in a number of ways, of reducing the costs associated with the production of capital.

Within the theoretical debate on the nature of imperialism there is remarkable disagreement on the role of the state relative to both the role of corporation and other International Organizations. The state (and to a lesser extent the multinational companies in its service) is the primary benefactor of imperialist control. The multinational corporation provides a special role in the globalizing and integration of the world economy, but does not take the place of the state as the central actor. Instead, it acts as a proxy mechanism meant to consolidate wealth in its home turf and to simultaneously act in defense of democratic freedom and consumer choice. Often, these 'benefits' are filtered through aid agencies. Haytor (1971) specifically points to the granting of foreign aid as imperialistic in nature, as systematic political-economic domination based on coercion and force. "Even when it is most obvious that it is being invoked in the interests of domination, the vocabulary of 'freedom', 'liberation', 'self-determination', and so on, is

faithfully retained” (Sweezy, 1942: 309). It is far less risky to present imperialism shrouded in eventual economic opportunity, than it is to on the level of national interests. This, mistakenly, is the sentiment echoed by more modern theorists of ‘globalization’ where the state is more of a non-actor. It is precisely how the imperial state uses its corporations to infiltrate economies through international organizations with some permanence is of central concern, highlighting the relationship between the economy and the state in a highly manipulated market-driven chasm of rhetoric on poverty reduction.

Within arguments on the role of the corporation versus the imperial state within the process of aid are those that afford some semblance of cooperation between the dominant corporation and powerful donor states, and those who feel that the multinational corporation has completely taken over the machinery of government in advance of its own ambitions of profit. An important aspect of this exercise is to distinguish the role of the state, that is, imperial state versus the diminished role of the government structures in recipient countries. In this case, it can be argued that western corporations act through FDI opportunities in similar ways as the World Bank itself acts as an agent for an economic agenda based on the laws of capitalism operationalized within a global context. The implementation of multinational corporate interests are intrinsically linked to the interests and enabling powers of the nation-state. Pooley rightly appraises that “it is not clear how multinational corporations are fundamentally different from national corporations, and thus the globalization regime different from the nation-based regime of accumulation” (Pooley, 1990: 50).

## **The American Empire**

Discussions on the notion of economic imperialism actually arose out of the United States in an essay by Charles A. Conant titled *The Economic Basis of Imperialism*, and published by the North American Review in 1898 during the Spanish-American War. In it, he argued that imperialism was necessary to absorb surplus capital, to relieve what he called 'congested capital' – the export of inflation. He was not in favour of imperialism, yet states that “upon the economic side of the question there is but one choice – either to enter by some means upon the competition for the employment of American capital and enterprise in these countries, or to continue the needless duplication of existing means of production and communication, with the glut of unconsumed products, the convulsions followed by trade stagnation, and the steadily declining return upon investments which a negative policy will invoke” (Conant, 1900: 30). From this exert, he relates economic imperialism to the necessary export of capital under presiding expansion and accumulation (but only as sentiment), and also recognizes the drive for inter-imperialist rivalry and competition in a pre-monopoly stage.

Modern economic imperialism after World War II signifies a time of informal and perhaps indirect means of control through development institutions and 'official development assistance'. The current primacy of the US cannot be ignored as a result “of its national economic power and its dominance of certain financial organizations, such as the World Bank and the International Monetary Fund” (Mastanduno, 2006). Extending beyond mere domination, economic imperialism entails historical structures within the capitalist system that provide for the extension of exploitative relationships for long-term advantage. The economic explanation of imperialism thus does not simply confine

imperialism to formal rule, but a more informal (and arguably more effective) economic administration. As such, this thesis aims to centralize the unspoken economic directives and motives driving the perpetuation of the imperialist stage of global capitalist development through seemingly ‘international’ bodies. Benefits gained from foreign direct investment (from the export of capital) are always expected to exceed those of the original investment. Economic effects of imperialism (as well as motives for aid discussed later in Chapter V) are central to any meaningful historical analysis of the structure of capitalist expansion and the role of the United States in ‘development’.

Within the history of capitalist accumulation and the search for the highest profits through the export of monopolized finance capital, Lenin felt that the growth of monopoly changed the nature of competition. A controlled capitalism, which is what emerged under early US hegemony, was an international arrangement (and indeed necessary one) for capitalist expansion based on state support and carried out by international development organizations and corporations loyal to the donor’s of aid, which was in fact capital export for the principle purpose of investment. Far from the original intention outlined by Kautsky in the peaceful internationalization of capital beyond the grasp of the state, Michael Hudson (1972/2003) in *Super Imperialism: The Economic Strategy of American Imperialism* suggested a super imperialism precisely based on US economic hegemony through key institutions and points of financial leverage (including the dollar standard and the double standard in balance of payments policy). The ‘Empire’ is the world that American Imperialism has cultivated and continues to dominate.

From a systems approach to imperialism, all foreign policy in the national interest is goal seeking, “and in all cases this extends to the continuation or self-preservation of

the system” (Frankel, 1970: 25), or ‘system-maintenance’. Sam Pooley rightly argues for the continued pre-imminence of national structures of political economy, but offers the idea along with Poluantzas (1974) that “the international and transnational linkages of capital are finding a reflection and power source in ‘refuge-centres’ or institutional forms substantially shielded from popular politics within nation states (Pooley, 1990: 46). But because the World Bank appears to operate from a clear political and economic arena of interests, this suggestion has particular implications for an analysis of the trajectory of capital within transnational state structures, where the expansion of capital reveals the hegemony of the US in international bodies, agreements and widely accepted macroeconomic development policy. In Iraq for example, imperial globalization from the West is not primarily de-centered in terms of the actors involved or the interests served; “US actors and interests are at the forefront” (Herring & Rangwala, 2005: abstract). But the specific ways in which structural properties of the capitalist mode of production can be manipulated strategically within a system, underscores the necessarily central political element therein. American domination over the global economy is not removed from the political and economic conditions created immediately following World War II, including the establishment of the Bretton Woods Financial Institutions, and also the earlier established Federal Reserve banking system which allowed Banks to use the fiat system of credit lending, with interest acting as leverage.

Many argue that trade is only mutually beneficial when it takes place between equal partners: an impossible situation. Therefore, the hidden or concealed social and economic costs of the politically directed world economy explains why decision makers, when confronted with problems; invariably interpret them in such a way as to justify

solutions that already fit their agenda. The US Empire is not in decline, nor is 'globalization' in retreat. The continued dominance of American foreign policy and prominence of American corporations makes such arguments appear to be convoluting the growth of the global capitalist economy with the supposed 'decline' of the structural economic requirements of the capitalist imperial state. The Bush administration's National Security Strategy recognizes no limits to the use of American power to promote its interests; although it is never described by its architects in the context of Marxist associations to economic power and exploitation. The Bretton Woods Institutions have in part allowed for the realization of such state control, introducing new elements such as "multilateral financial organizations, transnational corporations, [and] markets for financial speculation" (Vilas, 2002: 71).

"Global finance is heavily concentrated in a small group of large operators belonging to a few of the most advanced economies" (Vilas, 2002: 72). However, "without abandoning their anti-statist rhetoric...transnational corporations and appeasers of 'globalization' do not hesitate to avail themselves of the services of their respective states – diplomatic pressure, appeals to the World Trade Organization (WTO), or military or industrial espionage – when they are confronted by problems with the governments of the countries in which their branches operate" (Vilas, 2002: 73). Indicative of the remarkable upsurge of foreign trade during the postwar years, "the encouragement of the expansion of US corporations into multinational activity allowed for the rapid rebuilding of Western Europe. At the same time, these activities contributed to the avoidance of serious recession at home" (Turgeon, 1980: 61). This is a trend that continues to highlight the increasing antagonisms between the US domestic economy and the Empire it fosters.



The US is the preeminent military and economic power in the world. Keily is wrong to conclude that “US attempts to Americanize the world are undermined by US hegemony and the imperialism of free trade” (Keily, 2006, abstract). Quite the opposite is true. While through its leadership in the ‘international community’, it can actually often procure long term political and economic advantages without costly, direct, and image damaging direct military intervention. It prostrates a seemingly neutral stance on ‘freedom’, ‘democracy’, ‘empowerment’ and ‘liberation’, not to mention poverty reduction exercised through a set of proxy institutions both to contain and to exploit. In some way, the need to export finance capital signaled the birth of ‘development’. Economic imperialism is buried in agency surrounding humanitarian intervention and aid from US planners and strategists. As capitalist control intensifies, the stratification of international power is such that “the United States appears to have unquestionable hegemony” (Vilas, 2002: 71), and it has the resilience to adapt to changing surrounding circumstances while ensuring its cultural appeal. The prospect of inter-imperialist war, as Lenin and others envisioned, is not likely, given the overwhelming military superiority of the United States.

### **The Imperiled State**

Seeri (1989) argued that two things were critical to the development of the global capitalist economy at the beginning of the 20<sup>th</sup> Century. The first was the fusing of bank and industrial capital to form finance capital, thus generating masses of new capital which needed productive outlets; and the export of capital for productive investment, which was initially facilitated by the race among the imperialist powers to gain new control. Rather

than seeing modern imperialism as mere robbery characteristic of earlier analyses of imperialism, current imperialism throughout ‘developing countries’ is solidified at an accelerated rate through direct and indirect control of resources (as well as over the world market) by institutions and economic structures originating in the advanced capitalist states. Where ‘metrocentric’ theories of imperialism focus on the push behind expansion, pericentric theories draw attention to the forces that pull imperialists into dominating tendencies. The latter is expressed through John Gallagher & Ronald Robinson’s *The Imperialism of Free Trade* (1953). While looking at the constant drive for domination and preference for indirect rule wherever possible, political and economic conditions created in ‘developing’ countries needed to support the source of control. It has become quite fashionable within development studies to reintroduce the theoretical and practical issues surrounding the direction of the global economy (and how development is practiced within this context of imperialism), and in conjunction with Banks promising to liberate others from poverty and hunger. Where the Bretton Woods institutions found themselves cast in the role of enforcer, structural adjustment programs are viewed by many to represent the institutionalization of control (Biel, 2000: 232).

The extension of finance capital is a concerted effort to reduce the role and influence of the state in aid recipient countries, while fortifying the political power of the imperial state through agencies of development. When investment is deflected abroad, “the promise of profit represented by the natural resources calls into existence, by fair means of foul, the labour and capital to make it come true (Luxemburg, 1951: 27). Imperial countries must, in their lending and investment activities throughout the globe ensure reliable markets for their own commodity exports. With the merging of bank and

industrial capital for export to developing countries, “finance capital has created the epoch of monopolies and monopolies introduce everywhere monopolist principles: the utilization of ‘connections’ for profitable transactions takes the place of competition on the open market” (Lenin, 1970: 77). Multinational corporations allow for the bypassing of political and social safeguards to the increased division of labour and economic exploitation of the poor through extractive and other intensive industries. Multinationals help “relieve the chronic domestic capital surplus and reduce[s] the tendency for lower domestic profit rates” (Turgeon, 1980: 68). The rate of exploitation is higher in developing countries, and therefore the potential for higher profits is also higher. These profits must be realized.

Lenin “deduced the new forms of capital expansion which allows for much more extensive movements of capital into external territories” (Willoughby, 1986: 4). John Willoughby advances a Leninist theory of economic parasitism and internationalized exploitation as expressed through unequal exchange models of trade and the international division of labour (Willoughby, 1986). The need to export capital and commodities becomes crucial to the development of capitalism in this view” (Desai, 1989: 21-22), helping the shift from competitive to monopoly capitalism (Desai, 1989). Willoughby holds that “capitalist evolution will produce a lower rate of profit unless the real wage also rises” (Willoughby, 1986: 10). This is precisely the reason for capitalism to expand into imperialist tendencies. Willoughby charges that the Marxist method of deducing specific political behavior from a given set of economic contradictions” (1986: 8) would somehow be amiss. On the contrary, how else would one properly identify the reasons *why* capital must expand? One must have a political understanding of specific results of monopoly

capitalism, but the economic tendency is the ultimate cause of territorial exploitation.

Willoughby is flat wrong in his submission that in regards to the 'Third World', "none of the theories of capital export offered compelling reasons for the necessity of the penetration of non-capitalist regions" (1986: 12). He says that "traditional emphasis on capital flows tends to obscure the political and cultural dimensions of the creation of the capitalist world economy" (1986:13). This is just not true, as Lenin's theory suggests.

Hilferding (1912) concluded that "finance capital is capital controlled by banks and employed by industrialists" (pg.338-39), with "enormous dimensions of finance capital concentrated in a few hands and creating an extraordinary far-flung and close network of relationships and connections" (Lenin, 1970: 131). Where Lenin employs a law of uneven development (Desai,1989), he used Hilferding's theory of finance capital and integrated those aspects of Marx's theory of accumulation which predicted a growing concentration of capital in large industrial units (with the banks playing the role of providers of money capital), to help the movement towards mergers and integration. The method of building up this capital provides an outlet for the old industries and rescues them from the contradictions inherent in deficiency and demand" (Luxemburg, 1951: 27). The economic base of imperialism is characterized by concentration and centralization where the price of money, or interest, must rise. The tendency for capital export is seen as a normal part of capitalism by Hilferding where the export of capital replaces the export of commodities for investment in the imperial state, and especially where capital seeks out the cheapest locations for production. It is within these processes that the systematic exploitation of the poor is necessary to the functioning of capitalist expansion supported by the national interest, and carried out by non-state actors.

Finance capital represents the “expansion of the credit system, the mobilization of capital through joint-stock companies and banks, and the restriction of free competition by the establishment of cartels and trusts” (Bottomore, 1985: 64), coming from both the emergence of imperialist economic policy and the enlargement of the nation’s economic territory (ibid.). “Through an expansionist policy which requires a powerful nation state, “finance capital...has no faith in the harmony of capitalist interests, and knows well that competition is becoming increasingly a political power struggle...The ideal now is to secure for one’s own nation the domination of the world...” (Hilferding, 1910). Unlike Lenin and Bukharin under typical Bolshevik style, Hilferding did not see war an inevitable outcome of any corollary imperialist rivalries.

Lenin links early growth in capital to state power through the rise of US banking financiers in the 1920’s – the houses of Morgan, Rockefeller, First National City, Dupont, Mellon, Bank of America, etc. (Perlo, 1957: 125). In his discussion of the new role of banks, he also observes an accelerated division of labour and concentration of capital, revealing its inevitable international character and the “connection between imperialism and the interests of the ‘financiers’, the growing profits from contracts, etc.” (Lenin, 1970: 122). Adding the political element to his analysis, he further states that “the ‘personal union’ between the banks and industry is supplemented by the ‘personal union’ between both and the government” (ibid., pg.46). Hobson referred to ‘aggressive imperialism’, where from ‘invested’ capital, “the income of the rentiers is five times greater than the income obtained from the foreign trade of the biggest ‘trading’ country in the world” (ibid., pg.121), and “the banks have developed from humble middlemen enterprises into the monopolies of finance capital” (ibid., pg.149). “Bankers are very much like any seller

under capitalism: they try to get the highest price possible for the item they have to sell – money” (Turgeon, 1980: 91).

As an historical process, capitalist accumulation embodies an aspect concerning the market and the place where surplus value is produced...and the other concerning “the relations between capitalism and the non-capitalist modes of production which start making their appearance on the international stage through these market mechanisms. “Its predominant methods are colonial policy [and] an international loan system – a policy of spheres of interest” (Luxemburg, 1951: 452). In her seminal book *The Accumulation of Capital* (1913/1951), Rosa Luxemburg’s central thesis is that it is the invasion of ‘primitive’ economies by capitalism that keeps capitalism alive (ibid., pg.26). In her chapter on International Loans, she explains that in this phase of imperialism, the loan has various functions: 1) it serves to convert the money of non-capitalist groups into capital, i.e. money both as a commodity equivalent and as fund of consumption for the hangers-on of the capitalist class; 2) it serves to transform money capital into productive capital by means of state enterprise; and 3) it serves to divert accumulated surplus capital from the old capitalist countries to the new ones” (ibid., pg.420). Bukharin also observes a political element in his analysis of capital expansion, as happening through an international loan system. Accordingly, in time, “the objective content of capital expansion changes also – within certain limits” (Luxemburg & Bukharin, 1972: 257), from strictly production to finance capitalism – the continuation of politics with other means (ibid.).

A proper analysis of the economics of imperialism is necessary to reflect the structural and political factors inherent to the accumulation and concentration of capital through an international system of loans and ‘aid’ for poverty reduction. After the debt

crisis began in the 1980s for example, the US slowed down its export of capital through aid in favour of an inflow of capital from the developing world in the forms of debt payments and returns on foreign direct investment, revealing both the structure and behavior of the business interests involved. “Foreign loans...are yet the surest ties by which the old capitalist states maintain their influence, exercise financial control and exert pressure on the customs, foreign and commercial policy of the young capitalist states...such loans widen the scope for the accumulation of capital” (Luxemburg, 1951: 421). They become capitalist countries, insofar as they are now part of a capitalist global economy tied to powerful donors through the system of aid, not that they should particularly benefit from being ‘capitalist’, as it were. “Capitalists cannot, from the nature of the competitive world in which they operate, raise the standard of living of the people” (Barratt Brown, 1974: 65), and so the many conditions attached to World Bank lending affords priority to these assurances.

With usury imperialism or credit, “the export of capital affects and greatly accelerates the development of capitalism in those countries to which it is exported. While, therefore, the export of capital may tend to a certain extent to arrest development in the capital exporting countries, it can only do so by expanding and deepening the further development of capitalism throughout the world. The countries which export capital are nearly always able to obtain certain ‘advantages’, the character of which throws light on the peculiarity of the epoch of finance capital and monopoly” (Lenin, 1970: 76). Development does not lead to underdevelopment; it leads to overexploitation, or what Lenin referred to as “economic parasitism” (Lenin, 1970: 123) in the abuse of other countries. Any positive correlation dreamt up is convenient for those who rely on

the economies of the poor to justify huge augmentations of initiatives and resources dedicated to the project of development through measures for economic growth.

Some argue that imperialism is a new form of neo-colonialism expressed through the international market (Mishra, 2007). In this more indirect state of imperial control, the dominant state need not exert control through military force, but through an international system of loans and trade. The dominated country is sufficiently dependent economically through the loan and debt cycle, and therefore has little choice but to comply. Generally, Marxist theories of imperialism work to uncover mechanisms of systemic exploitation at the monopoly stage of capitalist development, as evident in today's imperial portico of morally driven development for economic growth and poverty reduction. Harry Magdoff argues in *The Age of Imperialism* (1969) that there is a 'reverse flow process' inherent in the cycle of lending, debt and interest payments. Using US economic statistics, he showed that earnings on foreign investments had risen from about 10 percent of all after-tax profits for US domestic non-financial corporations in 1950, to 22 percent in 1964. This was during the very beginning of World Bank lending, so there is also an element of dependency on the recipient country from aid.

"For Bukharin & Hilferding an important motive for capital export is the desire to penetrate the protected markets of other nation states from within" (Brewer, 1980, pg.125). This process begins from a national basis and flows through channels of finance capital investment, trade, and more recently, through those of development aid and poverty reduction. Capitalism needs a state to survive for the maintenance of property or physical infrastructure, as well as for favourable regulatory and tax relationships. In the development of infrastructure of 'capital works' such as railways, the most "elementary



conditions for industrial development have been created” (Lenin, 1970: 73). “This investment is matched partly by savings from surplus extracted on the spot, but mainly by loans from the old capitalist countries” (Luxemburg, 1951: 26). “Capital must purchase the elements of production and thus become productive capital before it can operate” (ibid., pg.427). This is reflected in the current system of international aid for poverty reduction with conditions requiring massive industrial infrastructure projects to attract capital and investment. All classical theories of imperialism evolved before the onset of coordinated development and international trade rules we see today, but were predictive to some astonishing extent.

Chossudovsky (1999) observes correctly that “the restructuring of the world economy under the guidance of the Washington-based financial institutions increasingly denies individual developing countries the possibility of building a national economy: the internationalization of macro-economic policy transforms countries into open economic territories and national economies into ‘reserves’ of cheap labour and natural resources” (pg.37). When investment is deflected abroad, “the promise of profit represented by the natural resources calls into existence, by fair means or foul, the labour and capital to make it come true. The process of building up this capital provides an outlet for the old industries and rescues them from the contradictions inherent in deficiency and demand” (Luxemburg, 1951: 27). The rate of exploitation is higher in developing countries, and therefore the potential for higher profits also. The need for capitalism to reduce costs in order to increase profits results in the suppression of wages and of labour for ‘specialized’ production for export, which has in turn increased unemployment and lowered purchasing

power. Where comparative advantage is concerned, “specialization is said to encourage foreign investment” (Petras, 1978: 15).

Inequality among and within nations arises in part through unequal terms of trade. Free trade removes challenges posed to the imperialists by traditional productive forms, cheapens the cost of labour, and opens up conditions for the greater division of labour and therefore the accumulation of capital. On the Marxist view, Engels elaborates through his introduction to Marx’s *Address on the Question of Free Trade*: “under capitalist conditions an industry either expands or wanes. A trade cannot remain stationary; stoppage of expansion is incipient ruin; the progress of mechanical and chemical invention, by constantly superceding human labour, and ever more rapidly increasing and concentrating production, creates in every industry a glut both of workers and capital, a glut which finds no vent anywhere because the same process is taking place in all other industries. Thus the passage from a home to an export trade becomes a life and death question for the industries concerned....” (Marx, 1935: 176). Marx “sees the course of capitalist crisis in the overexpansion of productive capacity in relation to the consuming power of any population in which income is very unequally distributed” (Barratt Brown, 1974: 58). “The last cause of all real crisis always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way that only the absolute power of consumption of the entire society would be their limit” (Marx, 1909: 30)

In carrying on the Marxist thread of ‘underconsumptionist’ theorizing bore from international trade and investment (Marx, 1909, 1935), Lenin situates the export of capital in the explanation that it cannot be used profitably at home. “As long as capitalism

remains capitalism, surplus capital will never be used for the purpose of raising the standard of living of the masses, for this would mean a decrease in profits for the capitalists; instead it will be used to increase profits by exporting the capital abroad, to backward countries. In these backward countries profits are usually high, for capital is scarce, the price of land is relatively low, wages are low, and raw materials are cheap. The possibility for exporting capital is created by the entry of a number of backward countries into international capitalist intercourse, the main railway lines have either been built or are being built there, the elementary conditions for industrial development have been assured, etc. The necessity for exporting capital arises from the fact that in a few countries capitalism has become 'over-ripe' and, owing to the backward stage of agriculture and the impoverishment of the masses, capital lacks opportunities for 'profitable' investment" (Lenin (1916/1933) chap.4, cited in Barratt Brown, 1974: 65).

"The connection between 'finance capitalists' and governments in Lenin's thesis could still suggest a reason for infrastructural development to secure privileged markets and sources of raw materials, and indeed to provide a generally favourable climate for the remaining proportion of overseas investment in the extractive, manufacturing and commercial activities of large companies" (Barratt Brown, 1974: 174). Corporations are meant to present themselves through seemingly benevolent international organizations as benefactors of the poor. Multinational corporations also allow for the bypassing of political and social safeguards to the increased division of labour and economic exploitation of the poor through extractive and other intensive industries. Foreign direct investment and subsequent multinational corporate activity in the third world are interrelated and complementary mechanisms for empire-centered capital accumulation,

which serve as powerful political pedals to drive the global economy (Petras & Veltmeyer, 2007).

As was prefaced by Lenin, “the most usual thing is to stipulate [is] that part of the loan that is granted shall be spent on purchases in the creditor country” (Lenin, 1970: 77). In this environment (and exercised through the International Organizations at their service) “private and state monopolies are interwoven” (ibid., pg.86), and so there is little to distinguish between the objectives of the international banks, the lending country and the corporations which invest in borrowing nations. What arises is the ability of imperial countries to employ this condition to determine and contain other trade activities and relationships that may arise within the country in question. Strategically, this is very advantageous as a method of direct control. “Finance capital finds most ‘convenient’, and is able to extract the greater profit from *such* a subjection as involves the loss of political independence of the subjected countries and peoples” (ibid., pg.97).

Exploitation of markets as outlets for surplus capital, relegates those ‘reforming’ countries to the capitalist mode of overproduction of primary resources for export (after devaluing currency to make it more competitive), but at unequal terms of exchange relations and trade, further undermining traditional local and national institutions. “The essence of imperialism is exploitation” (Cox, 1964: 141) and domination helps to facilitate this by inducing fundamental changes in policies within dominated territories. In defining exploitation, Cox holds that “only leader capitalist nations can make fullest use of the resources” (ibid., pg.145) of the countries under control. Previously (and still in some circles) imperialism was used as a euphemism for prosperity and good-will – a civilizing force. In other words, the term imperialism was used and viewed favourable by

imperialists, and “the motive from which such contributions are derived which is of ultimate significance” (ibid., pg.158), and that “imperialism rests ultimately on the peculiar capitalist use of superior power and deception” (ibid., pg.142). While this process weakens the position of some states, it strengthens the position of others (Bowles, 2004). Bukharin reminds that the “the richer country exploits the poorer, even if the latter gains through the exchange” (Luxemburg & Bukharin, 1972: 244). An approach from International Political Economy highlights an international nature in that “political economy is the science that deals with the laws governing the production and distribution of the material means of subsistence” (Leontyev, 1972: 5).

When everything becomes a commodity to sell and price corresponds to value, labour becomes a primary point of exploitation. Aid recipient countries become capitalist states, in essence, because they are locked within one global capitalist system of American driven imperialism, where growing disparity and dependency are inevitable. In the face of presumable failures of the World Bank, research that reexamines the results of aid for poverty reduction and the pretexts for it, can help to illuminate structures of imperial state power that are inherent to the process of advanced capitalist economic expansion and concentration. That is, the notion of giving aid for giving’s sake is alien to this logic - above all at a time when the capitalist crisis is raging throughout the entire world. Kautsky was counter-revolutionary, assuming that problems could be solved within the system if capitalism itself. Thus, to reduce poverty globally at the expense of profit would signify a break from the rules of how the capitalist system must behave on the global scale. It must exploit for a surplus. As will be substantiated in the next chapters however, it not possible to solve the problem within the framework of capitalism, as capitalism [and

most extreme under its highest imperial stage] implies the acquisition of surplus value (Bukharin, 1966).

The above evaluation of the landscape of debates on the necessary expansion of the state based exploitative nature of imperialism will help to anchor and frame a structural analysis of imperial state power over the process of development aid assistance through data on poverty and World Bank projects to fight it. In this way, a critique of development through advancing a theory of imperialism as both political (strategic) and economic (structural) state power that refers to the critical element of motivation (both politically and particularly in financial terms) will be offered in forthcoming chapters. For the discussion on the World Bank as an agent of the American led global economy in Chapter V, state centered theories of economic imperialism developed above will help inform the analysis in the sense that it connects the policies of World Bank projects to specifically US hegemony and national interest, including the corporations in its arsenal. In this thesis, Imperialism is operative and acting upon the operations of the Bank, as well as a theoretical perspective to ground an institutional analysis of the World Bank within. In the next chapter, the World Bank discourse and data on the ‘war on poverty’ will be presented with specific attention to the mechanisms of debt that lead to dependence on aid for both rich and poor, as well as massive repatriation of capital in the imperial center.

Imperialism is economically motivated, both by an objective structure and a prejudiced strategy. Because conversations often revolve around these economic determinants and exploitative intentions, there is prudent cause for looking at individually transformed economies and traditions, and the stagnating effects of aid and economic imperialism at the regional and global levels. The movement of capital in search of the

cheapest means of production for the greatest return represents the crux of this legacy. Magdoff (1969) warns against compartmentalizing aspects of the imperialist problem, and stresses the interdependence and interaction of political, military, cultural and economic paths of imperialist influence. When the organizations responsible for the transference of American ideals and interests are massive development banks, however, official missions of poverty fighting through 'aid' bring some obvious misgivings. The economic rules of capitalist expansion and accumulation through exploitation on a global scale generate the reality of modern imperialism. Taylor (1954) posited that those who explained imperialism in economic terms were rationalists and therefore sought rational explanations for the behavior of others. Therefore, an historical analysis of the political administration of imperialism in tandem with the economic feature in Chapter IV should help avoid a limited view of imperialism as it relates to the problems of aid, debt and poverty identified by international development theory and praxis discussed in the next section.

An argument based in state centered imperialist expansion of the global economy through 'agencies of development aid' vindicates the direct connection (and location) between which the WB and the US's public relations campaign of economic growth as a remedy for poverty, where the results have been obvious. If we can draw this conclusion, that the WB is used by the US as an agent, the focus on economic imperialism can support the objective of revealing the true intentions of World Bank aid, exercised at both the structural and strategic levels of imperialism. Chapter IV will look at results of World Bank development assistance in the form of aid for poverty reduction, leading to deep economic reforms that are implemented in countries that show geo-political significance

(for example the new IDA program of ‘reform’ and development in land-locked Armenia). It will also offer some historical and current perspective on the results of aid for developing countries and aid’s ‘effectiveness’ in its stated goals of waging a war on poverty.

Economic globalization is not a process autonomous to the state. Its exegesis reveals that imperialism is both a deliberate policy and an objective necessary economic process under global capitalism, where corporate capital is nationally based and internationally managed. Imperialists will talk even favourably of political motives of imperialism, or at least they used to; but they do not like to discuss the economic motives for it; or economic imperatives. Chapter V will attempt to ground the US at the center of international development aid through administrative control over the World Bank to ensure repatriation of profits to the capitalist class in the imperial state. Power is thus derived from the structural, which is objective, and the strategic, which is subjective within that structural permission. In Chapter V, a balance between the economic approach to imperialism with an institutional analysis of the World Bank based on political administrative characteristics and other relationships based on national interest is essential.

The World Bank is a useful unit of analysis capable of capturing the impact of international political economic relations upon the domestic political economy of imperiled countries. Through arguing that World Bank aid is not ‘failing’ in its intended objectives through factors inherent to state imperialism, one can recognize the centrality of political economics as scientific because of its commitment to falsifiability. Continued insistence on the ‘failure’ of World Bank development aid obfuscates the forthcoming



expressed realities that the World Bank has been successful in its unstated goals and objectives, where aid is working not to reduce poverty, but on behalf of the US to ensure repatriation of money loaned to developing countries, with interest. The interventionist, imperial state has not only kept the market in check, it has prolonged the 'death agony of capitalism' exploiting its inherent logic to render most of the world impoverished.

## Chapter IV:

# Adventures in Poverty Fighting – Deploying ‘Weapons of Mass Salvation’

Chapter II outlined the ideologies and models deployed by academics and Bank planners to produce international Poverty Reduction Strategies and related projects aimed at economic growth for poverty reduction. This section will employ a structural and historical institutional analysis of World Bank policy and agency to evaluate whether the War on Poverty has been at all successful in meeting targets of the first MDG of reducing extreme poverty and hunger in half by 2015. It will address the policies and implementation of privatization, market liberalization, production for export, reduced social spending, and other specific ways in which economies are transformed under ‘adjustment’ loans and ‘aid’, while also looking forward to potential political-economic paths of money and people in the accumulation of capital transferred back to the West through the World Bank, that will be discussed in Chapter V.

This chapter will present and analyze several programmatic attempts to fight poverty that may in fact, based on the insight of previous chapters, work better at perpetuating the conditions of extreme poverty through exploitation and debt, while benefiting the donors of aid from the imperialist core. It will present what appear to be systematic opportunities for the United States to continue setting the pace of development through liberalization of poor nations towards the global economy, and a strengthening of structures and institutions of aid that appear to work as economic (and increasingly political) agents of American state imperialism. This section will also deal with the debt

crisis and the mechanisms of oppression built into the structure of aid and evidenced through interest payments on loans, foreign direct investment, and ‘debt relief’ mechanisms that have persisted over time. Mechanisms of impoverishment may indeed present themselves as strategies for reducing poverty with the basic needs of the poor in mind. For directives of imperialism that may mask themselves in such programs, a few short case studies will be presented that incorporate measures taken to meet the MDG of halving poverty by 2015. Agriculture and the current food crisis, water privatization, and the World Bank’s International Reconstruction Fund Facility for Iraq (IRFFI) will be explored in the context of specific pathways of such measures. Although there is an American occupation and war imposed on Iraq currently as a form of more direct imperialism, informal control and power is exerted through other mechanisms often simultaneously, and this particular project of development with aid will be explored with this in mind to look at the likelihood of poverty reduction within the context, and under the conditions of American Empire.

How new policies based on pro-poor growth and equality relate to the imperialism of economics on a global scale, is of central concern. If such policies continue to work from the assumption that the free market provides an equal opportunity for all to engage at a level that permits no one person or country to have an unequal advantage over another, than it is no surprise that poverty eradication may not be the intention of these policies. Through small locally based development projects that happen largely under the radar of government functions in the recipient country, western NGOs and other grassroots organizations are able to ‘empower’ local and rural communities to adopt market principles and behavior by borrowing money for micro-credit programs. Whether this is

just a ploy to engage local communities in the global market through some brand of grassroots capitalism is yet to be investigated to the extent that it is desperately needed. At discussion here then will be the idea of micro-credit loans as a form of local development that can perpetuate either participatory empowerment and higher living standards for all, or 'informal' economic imperialism.

The methodological approach to this chapter entails an investigation of primarily qualitative library research with some application of quantitative analysis for statistics and trends on poverty, aid and debt. A series of short case studies will compliment a general historical analysis of the effects of aid in developing countries. In the analysis of aid and poverty reduction through various initiatives of the World Bank, data specific to the Millennium Development Goals related to extreme poverty, hunger, as well as access to safe drinking water, will be scrutinized at length. The inclusion of access to water here is important as it is often used as a central indicator of extreme poverty along with targets based on measures of income (which may not necessarily, and often do not, indicate fair and free access to the basic needs of survival). The investigation will also evaluate various loan structures and agreements, as well reports and publications of the World Bank to understand the Banks logic of continuing to employ economic models of growth for development and poverty reduction within the theoretical paradigm of modernization; in the face of increasing poverty and inequality. The preliminary objective of looking at a variety of projects and their effects is to form a cognitive map of the more important projects or series of projects aimed at fighting poverty. If we can isolate some of the patterns of restructuring and resiliency inherent to economic structures and mechanisms that the World Bank employs with its billions of dollars for poverty reduction, we can

form a better judgment of how development projects are defined in these instances, and whether they are more conducive to solidifying the global structures that ensure the perpetuation of globalized American state imperialism. A minor concern in working with an abundance of literature published by the Bank that insists on a continuation of theories of economic growth (despite what it refers to as ‘inefficient application’ of these principles to explain the persistence of abject poverty) is the danger of accepting the assumptions and assessments of such writing.

The methods of investigation will attempt to present the data necessary for evaluating the particular relationships between World Bank directed development aid and the necessary global expansion of imperialism based on the agency embedded in capital export through aid and investment, debt, and American dominance in World Bank operations and administrative structures. In this section, particular attention will be paid to exploring poverty reduction strategies in the context of aid representing capital export and its aforementioned effects based on the economic policies and reinforcing discourse of ‘economic growth’. Chapter V will be informed by the theoretical framework of imperialism for this reason, highlighting the ‘reverse aid’ process, or repatriation of capital investment to the North through debt, as well as American dominance in World Bank operations beyond the ideological. From the set of examples and data presented from World Bank development projects, a clearer picture is possible as to whether development aid is intended to alleviate poverty or advance US imperialism. What is more likely given the information that we have? What specific kind of data or evidence can show us this?

In addition to testing the purposes of development aid for poverty reduction as practiced through the World Bank, consideration will also be given to target ten of Goal #7 of ensuring environmental sustainability, which includes the goal to half, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. To the extent that formerly considered elements of human rights are increasingly becoming privatized into user fee based services, this is very often viewed as a result of conditions attached to aid and subsequent foreign direct investment (capital export and repatriation) opportunities allowed by the structure of the international ‘free’ market. Context will also play a significant role in guiding the research process, being careful not to underrate the historical social processes and relations that have persisted over time. One major reason for using this goal in conjunction with an analysis of development and economic imperialism is to highlight the limitations of defining and measuring poverty reduction targets through western defined income and specifically aggregate economic data at the global, regional and even country level, as neither accounts for exploitation, exclusion, and inequality within nor between nations. Neither does it apply historical consideration to the social impacts felt at the level of agricultural sector restructuring, for example. Despite this, the United Nations argues that “for monitoring country poverty trends, indicators based on national poverty lines should be used” (United Nations Millennium Project, 2006) and that billions can now benefit from the global economy.

There are predictable limitations to investigating multiple applications to the problem of development as exercised through the World Bank, and the application of aid to two paths of inquiry: whether it is reducing poverty or whether it acts as an agent of

economic imperialism. The assumption is made by this author is that it cannot do both. Analysis of the World Bank Group will be limited aid delivered through mechanisms connected with the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC). The reason for this is to gain insight into those arms of the Group that operate at the level of ‘development’, insofar as poverty is concerned. Defining integral concepts will help serve the basis for discussion on its relationship to other concepts and will help develop a measurement procedure to gather and evaluate data. This is also important to justify why the methods applied are useful in substantiating the central argument that aid is working to accomplish what it is intended to – an understanding crucial to the study of development.

There is much disagreement over the causes and consequent responses to rapidly growing poverty rates both within and between nations in the Global North and South. This contention persists despite clear evidence to the contrary, not to mention the historical problems with implementing poverty reduction strategies illustrated in the lack of political will, evidenced by results counter to supposed intentions. The objective here therefore, is to provide a primary argument that poverty is, in fact, a result of a set of policies deliberately imposed upon the so called developing world. Where this has happened under colonialism for at least the past half century, the ‘new imperialism’ is really just the old style adjusted to modern conditions of international mobility.

This exercise is primarily concerned with analyzing the economic correlations between World Bank development aid and US state imperial power. Where it is highly mistaken to offer an economic analysis without considering the interconnectivity of

political and historical social factors, the strategy of the United States through the global economic channels it controls can show us more about the poverty so-called fighting work of the World Bank and the consistency of its results within a larger geographical and temporal framework. It will explore how the Bank specifically benefits US imperialism through explaining the principles and effects of capital export as a strategy attached to ‘international development’ in the context of advanced economic imperialism. The study of organizations can also explore power-dependence relations, and this focus will help to deconstruct the nature of the relationship between poverty, international trade and financial institutions, and the imperial state, where all countries reside within one global economic structure of relatively unilateral imperialist will and national interest.

### **The World Bank’s War on Poverty: Evolution of a Crusade**

Truly massive schemes have been devised for poverty reduction, providing access to vast resources for the development enterprise since at least the 1950’s, and directly after the Bretton Woods conference with the Monroe Doctrine and the Marshall Plan. During the 1944 Bretton Woods Conference. The purpose for the new framework was erected for the postwar global economy was to strengthen capitalism through the establishment of a “stable, cooperative international monetary system which would promote national sovereignty and prevent future financial crises” (Ellwood, 2001: 27). The conference opted for a system based on the free movement of goods, with three governing institutions emerging to oversee and coordinate the global economy: The International Monetary Fund (IMF), World Bank (International Bank for Reconstruction and Development), and the General Agreement on Tariffs and Trade (GATT) which later became embodies



through the World Trade Organization (WTO). Other than the GATT, the new WTO also included the new General Agreement on Trade in Services (GATS), which permeates into all areas of social service provision including transport, education, health and the environment. The World Bank writes its own report card.

The idea of a 'war on poverty' is not novel, although its reference is still omitted from the World Bank's Articles of Agreement. In 1964, US President Lyndon B. Johnson's 'Great Society' "program declared an 'unconditional war' on poverty" (UNDP, 2005: 78) providing a similar rationale for international development. The UNDP assures that "international aid is one of the most effective weapons in the war against poverty [and that] today, that weapon is underused" (ibid., pg.7). In the 2003 *Human Development Report*, the UNDP echoes the dogma of making aid more effective by 'giving' more. When considering the effectiveness of aid, the report states that "aid contributed to many of the spectacular development successes of recent decades...Bolivia and Ghana in the 1980s, Uganda and Vietnam in the 1990s" (UNDP, 2003: 147). This statement invokes real concern in those who would turn to page 200 of this same report, where progress data on the MDGs accounting for the period from 1990 to 2001, the percentage of the population living below \$1 a day in Uganda was 82.2 (Nicaragua topped the list at 82.3 while the fabulous legacy of development aid in Ghana during the 80's resulted in 44.8 per cent for the 1990s). Countries in sub-Saharan Africa have the highest poverty rates overall for this period. Alas, countries must adopt "more ambitious plans for development", (ibid., pg.5) or they will not meet the goals. Why would the Bank be perplexed with the reinforcement of negative stereotypes of aid in light of this example?

In its Human Development Report for 2005, the UNDP defines the MDGs as ‘basic human rights’ embodying “basic indicators for human development in its many dimensions, including income poverty, education, gender equality, progress in combating infectious disease and access to clean water and sanitation” (UNDP, 2005: 39). It contends that international “aid allows recipients to increase consumption” (ibid., pg.80) and is “the equivalent of a redistributive fiscal transfer mechanism” (pg.39)...a ‘promissory note’ for the MDG’s. The UN is sure that aid represents “a mechanism for expressing human solidarity” (ibid., pg.79). Does reality justify such a glittering testimony?

It is assumed that more aid will be directed towards increased social spending for development goals. But the history of loaning has shown that the more aid, the higher the debt and subsequent payments on interest become. “In 1998, almost a quarter of official development assistance was tied, meaning that the procurement contracts were limited to the donor country” (World Bank, 2001: 200), and the World Bank blasts donor countries as interfering with the principles of the ‘free market’ that the reduction of poverty through growth is supposed to accomplish. Since the Paris Declaration on Aid Effectiveness in 2005, “there is less use of tied aid” (UNDP, 2005: 8) according to the UN. When the World Bank says that development must change course, but under the same instruments and power trends hitherto, how should anyone expect poverty (or ‘tied aid’ for that matter) to decline? And with enormous financial and intellectual resources at the disposal of this truly massive network of development agencies, it is difficult to understand why poverty would still exist at all. Or is it?

In 2000, the World Bank reported that poverty in South Asia during the 1990s rose and the actual number of people in the region has been increasing fairly steadily since 1987 (World Bank, 2000a), inequality is growing in India, and Sub-Saharan Africa remained the region with the highest share of people in the world living on less than \$1 per day, with dim prospects for the future. Despite 'growth', poverty levels have not been affected. The Bank points to "adverse weather" as just one of the reasons for this set back (ibid., pg.30). Latin America and the Caribbean experienced both accelerated economic growth and poverty. Most every regional break down of data shows the same trends. Many countries with huge debts "spent as much as a fifth of their annual budgets on debt service in the 1990s, and some spent more" (ibid., pg.201). The UNDP will admit that "extreme inequalities are rooted in power structures that deprive poor people of market opportunities, limit their access to services and – crucially – deny them a political voice" (UNDP, 2005: 7). What it refers to 'pathologies of power', however, are restricted to an analysis of the state in aid recipient countries as the problem for donors, and argue that conditions for borrowing are never followed or implemented properly.

Biel (2000) argues that "the World Bank does not necessarily start from a subjective desire to promote exploitation" (pg.231). This account removes the deliberate political elements: the motives for aid driven by capital expansion and accumulation. Rather, it would be more reasonable to assume that 'aid' and 'development' become necessary at that junction in history when overt imperial force alone is insufficient, costly, and counterproductive to the establishment of compliance with US foreign policy. The poor are thus encouraged to participate in building the very structures that exacerbate poverty. While reducing the social to the aggregate, development for 'poverty reduction'

requires restructuring to allow for foreign direct investment through development contracts granted by the World Bank and its associate agencies. Conclusions that diverge from this script are avoided, no matter how starkly the numbers on poverty seem to rise.

Many have warned of the dangers of aggregate statistics for comparing distinct countries (McMichael, Petras & Rhodes, 1974). “GDP only adds and never subtracts; that is, no distinction is made between destructive and productive activities” (Suzuki, 2003: 105), and as suggested above, economic growth has not proven to be a driver of poverty reduction. To this point, the World Bank refuses to report on its development impacts on a project by project basis and instead produces an annual report that presents its ‘aggregate’ development impact data. Multi-dimensional facets of poverty and the range of different interventions make coordination, monitoring and evaluation precarious and tenuous points of contact with aggregate data removed from inequality. The Bank portrays the image that everything is going ok, so they are less apt to bring to light their own failures in reducing poverty through aid. In reality, massive and extensive macro-economic and fiscal policy reforms directed at export-orientated productive activities have been designed and implemented to strip control of domestic governments over the direction of the economy, while necessitating further aid in the form of loans through debt refinancing.

Attempts by national governments to protect the poor have been thwarted, for example, in India where the government is not allowed to restrict imports and investment even though it “faced a serious balance of payments problem” (World Development Movement, 1999: 3). The implications have been enormous. There is both a push and a pull factor at play. On the one hand, foreign investment relies on cheaper labour and lax regulatory standards to minimize costs; and on the other hand, national governments must

also restructure to attract industry in the hopes of reducing poverty through promises of increased employment. The tendency is actually towards increased industrial concentration (or monopoly), the elimination of smaller domestic enterprises, as well as the privatization of the social service economy through foreign direct investment – part of the regular fallout of aid delivered through structural adjustment. One major contradiction within the system of capitalism is that the ‘rules’ and logic of the global economy actually work to destabilize purchasing power in developed countries when production is moved overseas (Chossudovsky, 1999). The literature debates in this area are central to this work on the World Bank because aid delivered through neoliberal economic policy in the early years of development led to massive levels of debt owed by ‘developing countries’ who had just opened their economies and accelerated their agricultural production to join the marketplace of plenty.

For the purposes of making an argument for development practice as state imperialism, debt plays a central role for the United States in dictating the levels of openness it encourages. “Never has capital had it so good since the 1980s” (Petras & Veltmeyer, 2005: 86), and the debt crisis of the late 1970s and early 1980s provided superb opportunities to use leverage and force ‘free trade’ through structural adjustment programs. The next section will then specifically address how debt and the service of interest payments may be in fact designed (and therefore intended) to perpetuate debt, economic dependency, and poverty, while the donors or those otherwise in control of the economic and political mechanisms clearly benefit from development aid. Do these development programs constitute a war against poverty? Or is it more likely that any failures are due to the design and are, in fact, quite successful in their real intent?

## **North-South Aid Flows and the Current Status of the MDGs**

The legacy of aid has left tragedy in its wake. Despite a long history of failure to reduce poverty, the World Bank has continued its same path to ‘growth’, through international agreements and deep reforms aimed at bringing developing countries into the global market so that they can benefit from ‘globalization’ and reduce poverty through economic growth. New World Bank President Robert Zoellick’s has expressed his wishes to “advance an inclusive and sustainable globalization” (World Bank, 2007c2). However, the legacy of donor interests in the application of aid through the World Bank is noticeable through a closer look at the flow of aid, the intent of the aid, and then the actual consequences of policies surrounding World Bank loans. Since 2000, the targets and indicators comprising the framework of the eight Millennium Development Goals have become the model example of development. All eight goals are interconnected as each depends on the eradication of poverty.

The acceleration of global capitalism was associated with increased international liquidity in the 1970s following huge military expenditures in Asia after the Vietnam War, and the development of “new instruments for financial speculation” (Vilas, 2002: 72) like fluctuations of exchange rates, allowing capital to move easily from one place to another. In the 1970s World Bank President Robert McNamara contracted huge loans to the South to bring necessary infrastructure development for investment and to “act as a bulwark against a perceived worldwide communist threat” (Elwood, 2001: 41), entrenching the World Bank’s stake in these places. Dasgupta has claimed that “policies that encourage economic growth can indeed improve the distribution of well-being” (Dasgupta, 1998: 3). But since then, inequality has risen to the highest levels in history (Socialist Action, 1998)

where impoverishment, starvation, avoidable disease and death have devastated whole continents. In Eastern Europe after 1989 when capitalism was reintroduced, they joined others around the world whose living standards were falling in absolute terms. Capitalism, in this instance, is seen as *creating* poverty; and in economies where it was restored, any progress was reversed. For example, World Bank data shows an increase in poverty from 1975 to 1995 in those countries not considered part of the 'imperialist core' (ibid.). Public funding from foreign aid was more significant than privatized FDI in the first twenty years of the IBRD, and in the 1970s and early 80's before the global debt crisis, "financial flows reemerged as commercial banks in the developed countries financed public works and private industry in many developing countries" (Spero & Hart, 1997: 167).

While there were reductions in aid throughout the 1990s, these were coupled with increased foreign direct investment, which is a normal condition for a loan or grant from the World Bank. Overall, bilateral and multilateral flows of aid to developing countries fell in the 1990s, a direct contrast to increased levels of aid in the 1970s and 80's. Net ODA (Official Development Assistance) from the DAC (Development Assistance Committee) countries fell from \$60.8 billion in 1992 to \$48.3 billion on 1997. As a combined percentage of GNP from OECD countries, this reflected a 20% fall from 0.33% in 1992 to 0.22% in 1997, less than a third of the agreed upon target of 0.7% (Rasheed, 1999: 25). Private financial flows to developing countries had increased over this same period. Between 1988 and 1997 private flows for investment rose from \$36 billion to \$252.1 billion and North-South transfers of capital grew from 38% to 78% (Therien & Lloyd, 200: 27). According to UNCTAD, in this similar time frame forty-four of the world's poorest countries saw a steady increase in foreign investment from an annual

average of under \$1 billion in 1987-92 to almost \$3 billion in 1998 (*The Economist*, May 20 2000: 127). Despite the periodic decrease in official multilateral aid for poverty reduction, the rhetoric that private foreign direct investment would eventually raise the living standards of the poor was commanding in its insistence of the 'free market'. The temporal gap between a decrease in aid and subsequent increase in FDI seems a timely transition period from the initial loan to the development of productive infrastructure for 'development', providing favourable conditions for Western multinationals to raise export capacity and ensure increasing profits.

After decades of development aid for poverty reduction, the situation at the half-way point for reaching the Millennium Development Goals is tragic as far as its stated goals would suggest. To quell these abhorrent conditions, 189 Nations Signed the Millennium Declaration in 2000, and the MDG's became the global framework for poverty reduction and development. These commitments were redressed at the Monterrey Conference on Financing for Development in 2002, and also at the 2005 World Summit. Half way to the time when eradicating poverty is supposed to be met in 2015, the UN points to a lag in ODA since 2004 (United Nations, 2007: 3) as jeopardizing the achievement of the goals. Now in regional aggregate terms, "the proportion of people living in extreme poverty fell from nearly a third to less than one fifth between 1990 and 2004" (United Nations, 2007: 4) globally, but sub-Saharan Africa "is not on track to reach the goal of reducing poverty by half by 2015" (ibid., pg.4) and its overall predictions are dismal, even for a report that should highlight the so-called successes achieved. Despite these trends, since mid-2007 41 countries in the region have prepared national development strategies to achieve pro-poor economic growth (ibid., pg.5).



Persistent poverty, income disparity and inequality are indeed the continuing trend. “In most developing regions, the average income of those living on less than \$1 day has increased” (United Nations, 2007: 7) and that any poverty reduction based on the poverty-gap model “has been accompanied by rising inequality”, (ibid., pg.8) where between 1990 and 2004, “the share of national consumption [or in some cases income] by the poorest fifth of the population in developing regions decreased from 4.6 to 3.9 per cent” (ibid.). Inequality is highest in Latin America and the Caribbean and in sub-Saharan Africa, “where the poorest fifth of the people account for only about 3 per cent of national consumption (or income)” (Ibid.). Also, “the situation in individual countries within a given region may vary significantly from the averages presented” (ibid., pg.34) in the report.

Under the seventh goal of ensuring environmental sustainability, halving the proportion of the population without sustainable access to safe drinking water and basic sanitation between 2005 and 2015 will require reaching an estimated 1.6 billion will likely miss by “almost 600 million people” (United Nation, 2007: 25). Lack of access to water and sanitation contributes to 88 per cent of deaths due to diarrhoeal diseases (Ibid., pg.26). No region is on track to reaching this target and the UN prescribes a dramatic increase in aid, coupled with a series of “quick-impact” initiatives (ibid., pg.5). Also listed as a key publication on its website, *Investing in Development: A Practical Plan to Achieve the Millennium Goals*. Meeting the Millennium Development Goals will also require significant attention to vulnerabilities specific to rural communities, where approximately 75% of the absolute poor in developing countries live (CIDA, 2002: 7).

Africa is home to 39 of the poorest countries to which the IDA provides interest free loans and grants. IDA lending to Africa between July 2006 and June 2007 reached US\$5.7 billion. Infrastructure projects accounted for US\$4.77 million in 2006 and an incredible US\$707.2 million the following year (World Bank, 2007d). Under the Africa Action Plan, lending has recently soared in concurrence with an elaborate rush to provide financial aid to meet the targets set out in the MDGs – to half extreme poverty by 2015. The plan employs a results oriented framework for supporting ‘quick impact’ development projects. The World Bank credits infrastructure development to ‘better services’ and says that in the last decade 66 million people received connections to electricity and since 2002, 1.7 million were able to access clean water (ibid.). It does not say how much the poor pay for access, however. The World Bank has also encouraged the transition in the agriculture sector from subsistence to high value exports (ibid.). The evidence of recycled relations specified through the historical context of geopolitics in North-South relations suggests a ‘paradox of development’, where continued loans made for poverty reduction through various ‘aid’ programs have actually led to increased poverty, inequality and debt as a result of transformed societies.

Since the Monterrey Conference on Financing for Development in 2001, aid had increased 4 per cent a year in real terms, or \$12 billion (in 2003 dollars) from rich countries. In 2005, they spent 0.25% of GNI on aid – “lower than in 1990 but on an upward trend since 1997” (UNDP, 2005: 7). On July 14, 2005, the World Bank Group announced its lending for the fiscal year, where financial support to developing countries rose to \$22.3 billion in fiscal year 2005, for 279 projects worldwide, representing an increase of \$2.2 billion over fiscal year 2004. Of this amount, \$13.6 billion was in

financing to mostly middle-income countries from the International Bank for Reconstruction and Development (IBRD) for 118 projects; and \$8.7 billion was mostly in the form of no-interest loans or grants to the poorest countries from the International Development Association (IDA), for 161 projects. By comparison, total IBRD and IDA lending commitments were \$20.1 billion in fiscal year 2004, including \$11 billion from IBRD, and \$9 billion from IDA (World Bank, 2008b). Despite these numbers, the UNDP insists that in order to reach the MDG of halving poverty by 2015, aid flows must double in sub-Saharan Africa by 2010 (UNDP, 2005: 7).

Motivated by a strengthened capacity to lend, the IBRD lowered its interest rates on August 9, 2005 and raised by \$1 billion dollars the amount it was allowed to loan to any one borrowing country; the previous cap of \$13.5 billion was set in 1997 (World Bank, 2008c). With this new advantage on its continuing renegade to attack poverty, the World Bank Group committed \$34.3 billion in loans, grants, equity investments, and guarantees to its members and to private businesses in its member countries in 2007 – up \$2.7 billion (7.8 per cent) from fiscal year, 2006 (World Bank, 2007d). Similarly, IDA commitments were \$11.9 billion, 25 per cent higher than the previous year, and the highest in IDA history (ibid.). Financial commitments to sub-Saharan Africa alone increased by \$1.8 billion in 2007, to \$7.5 billion and included a record \$5.8 billion in IDA credits, grants and guarantees (ibid). Record lending indeed.

### **The Historical Paradox of ‘Development’: Aid, Adjustment, Debt and ‘Debt Relief’**

Despite massive injections of international aid and loans to the poorest countries on the premise of eradicating poverty by 2015 through the MDG framework, a long history of aid flows and resultant foreign direct investment, poverty and debt should be reviewed

that may shed some predictive capacity of the current ‘war on poverty’ to achieve now, where the initial provision of development loans *appear* to have failed. At the 1985 Annual World Bank and IMF meeting, US Treasury Secretary James Baker introduced what became The ‘Baker Plan’, which focused on continued ‘adjustments’ to economic policies of debtor countries (Elwood, 2001: 47). Short-term stabilization measures and results orientation lay at the heart of adjustment programs, and yet former Managing Director of the IMF Stanley Fischer warns that short-term capital is the most dangerous kind (PBS News, 2000), and instead favours long-term investment as having potential in reducing the level of poverty in those countries borrowing money for development. Nevertheless, former president of the World Bank James Wolfensohn proclaims that the focus of the World Bank is to “fight poverty with passion” (ibid.) through the integration of developing countries into the global economy, which he ensures increases grassroots participation. Subsequent liberalization and restructuring proves successful to private banks at least, “who siphoned off more than \$178 billion from the South between 1984 and 1990 alone” (Elwood, 2001: 47).

This section will help to disaggregate the bank’s figures and inspect how aid affects the worlds poorest by any standard of measurement or impact of ‘growth’. Cited in the World Bank’s 2000/2001 *World Development Report: Attacking Poverty*, a decline in ODA in the 1990s was coupled with “massive inflows of private capital...from 43 per cent of total resource flows in 1990 to 88 per cent in 1997...though concentrated in few countries” (World Bank, 2001: 190). The world’s poorest region Sub-Saharan Africa, received only 2.1 per cent of flows to developing countries in 1998 (ibid, pg.190). One of the reasons for this, according to the Bank is that “aid flows have been determined more

by political and strategic interests than by poverty reduction goals...[and] 'aid fatigue'" (ibid., pg.191). In the same pivotal publication World Bank stated that "developing countries themselves will largely determine through their own policies whether they achieve the international development goals" but that aid and debt relief are vital (ibid.). The report also points to a "reformed framework for country-focused aid and debt relief for the poorest countries" (ibid.). Mistakenly, David Suzuki contends that "foreign aid is not a frill or indulgence of the rich countries but a necessity to ensure a future for our children" (Suzuki, 2003: 119).

The use of economic and political conditionality for aid for economic and political objectives is what is meant as 'leverage'. Conditions are often precisely quantified by the World Bank, including the rate at which a currency is to be devalued, amount of government services to be cut, how much to reduce restrictions on imports, private sector promotion, export liberalization measures, (Haytor, 1982), set out in a Poverty Reduction Strategy Paper submitted by the recipient country for consideration. However participatory and mutually beneficial the process appears, the linking of aid to poverty reduction occurs under strict conditions of reform. Further to these, since the 1970s aid has often been 'tied', that is to say, one of the conditions to borrowing money is that this very money is spent on goods produced in donor countries (Haytor, 1971: 15).

In the early 80's, the inability to service debt (after a decade of high oil prices), obliged debtor countries to turn to structural adjustment. Policy-based structural adjustment lending was therefore initially imposed at that time as a condition for existing debt refinancing and renegotiation (Chossudovsky, 1999). Where this process has typically meant the devaluation of currency to heighten comparative advantage with

export commodities, internal purchasing power has also suffered as commodities must be bought at shifting and speculative market prices based on unfair rules of trade. In 1985, “adjustment with growth” (Hutchful, 1995: 400) meant the adoption of comprehensive and severe changes to internal economic policy supporting the fundamental principles of macroeconomic reform, buttressed by “increased lending by the private commercial bank’s (some \$20 billion over the next three years)” (ibid.). This was referred to as the Baker Plan, after US Secretary of the Treasury in October 1985, also known as ‘adjustment with a human face’, and officially as the “social dimensions of adjustment (SDA)” (ibid.).

After receiving international bank credits in the 1970s with the help of the Ultramar Banking Corporation, Nicaragua’s per capital foreign debt increased 22 per cent each year between 1975 and 1978, amounting to US \$515 million and export income was halved between 1977 and 1978 from drops in commodity prices. It was unable to cover the loss of capital flight through export income (Ugarteche, 1983) which resulted in growing debt dependency. In July of 1979 there was a proposal to restructure the debt then estimated at \$1.3 billion. Just the previous February, Nicaragua devalued its currency at the behest of the IMF by 43 per cent (ibid., pg.191), thereby ensuring a source of cheap labour.

In 1982, in what is said to have initiated the SAP, the World Bank offered Mexico a bail-out loan to help refinance the debt it had incurred in the 1970s. After currency devaluation, lifting of import and export restrictions, privatization of public enterprises, and removal of state subsidies to domestic industries, the result was often in increased prices of goods and services formerly provided by the government, and the imposing of

user fees of basic health services (Parakh & Weinrib, 2002). That same year in Tanzania, the position from within the country differed greatly with those of World Bank and IMF planners, where the latter saw problems related to conditionality (such as a 100 per cent devaluation of the shilling) as being internal in nature (including corruption and poor domestic management of loans), Tanzanians saw the problems as primarily external. In fact, increases in the price of oil during the 80's caused primary commodity prices to collapse from prevailing terms of trade, while industrial prices rose consistently. The result for Tanzania amounted to "losing ground simply in prices received for international commodities" (Loxley, 1983: 207), experiencing a series of droughts and floods, bad harvests, and therefore having to resort to importing food (Ibid.). After a general collapse in East Africa, Tanzania was obliged to invest in infrastructure such as railroads and airways to replace community assets (ibid.).

Whereas before 1980, most countries in the 'Global South' were considered socialist or 'welfare statist' using the import substitution model where locally owned industries are protected by the government through high import tariffs (Palast, 2003), adjustment was explicit in its necessity for export promotion based on principles of comparative advantage. By 1987, the World Bank had approved 52 SAP loans and 70 sectoral adjustment loans. During the period of 1980-89, 171 SAPs were introduced to sub-Saharan Africa; a further 57 had been initiated by the end of 1996. The initial debt crisis in the early 1980s led to more lending as countries were unable to meet their balance of payments obligations. In the 1980s and 1990s, initial structural adjustment program implementation occurred in the following countries:

1980 – Jamaica

1981 – Brazil; Mauritius; Uganda

1982 – Mexico; Ecuador; Bangladesh; Central African Republic; Argentina; Tanzania  
 1983 – Chile; Ghana; Kenya; Malawi; Niger; Somalia  
 1984 – Congo/Zaire; Mauritania; Senegal  
 1985 – Bolivia; Botswana; Costa Rica; Gambia; Guinea; Sao Tome  
 1986 – Madagascar; Nigeria; Philippines; Sierra Leone; Tunisia  
 1987 – Zambia; Algeria; Guinea-Bissau; Mozambique; Sudan; Yugoslavia  
 1988 – Equatorial Guinea, Guyana; Hungary; Pakistan; Sri Lanka  
 1989 – Cameroon; El Salvador; Jordan; Lesotho; Trinidad; Venezuela; Congo (RC); Togo  
 1990 – Colombia; Czech Republic; Nicaragua; Peru; Rwanda  
 1991 – Angola; Burkina Faso; Cote d'Ivoire; Egypt; Ethiopia; India; Romania; Zimbabwe  
 1992 – Latvia; Reunion; Ukraine; Belarus; Azerbaijan; Georgia; Armenia; Kazakhstan;  
 Uzbekistan; Moldova  
 1993 – Benin; Gabon; Russia; South Africa; Surinam  
 1994 – Eritrea; Cambodia; Haiti; Mali  
 1995 – Seychelles; Swaziland; Tajikistan  
 1996 – Bosnia-Herzegovina; Comoros; Uruguay  
 1997 – Bulgaria; Djibouti; Indonesia  
 1998 – Mongolia; Paraguay; South Korea; Thailand; Yemen  
 1999 – Kosovo

(“BSFUSI”, 2006).

In June of 1982, Tanzania implemented a SAP, and what was a contentious issue before, became disastrous when the currency was devalued to remove import tariffs. The “Tanzanian shilling was devalued by 12 per cent in March 1982, 20 per cent in June 1983, and by another 26 per cent in June 1985” (Cheru, 1989: 58). In the 15 years since 1985, Tanzania’s GDP dropped from \$309 to \$210 per capita (Palast, 200: 150). In April of 2000, a total of 157 conditions attached to loans to Tanzania included the provision that it begin charging for what were previously free hospital visits. By 2003, the “number of patients treated in Dar es Salaam’s three big public hospitals [had] dropped by 53 per cent” (ibid., pg.149). Removal of government subsidies causes prices to soar, and the World Bank prepared more loans conditioned on longer –term, structural and institutional changes. When policies to save and invest are ‘encouraged’, often this is clearly impossible given the levels of poverty created by the very institutions they are meant to be entrusting with poverty reduction.



Country Assistance Strategies contain a general four step program of privatization, capital market liberalization, “market-based pricing” and free open trade, policies for poverty reduction. A World Bank Country Assistance Strategy for Argentina dated June 5, 2001 reported that the government “had made a \$3 billion cut in primary expenditures accommodating the increase in interest obligations” (Palast, 2003: 163) to apply for a \$20 billion ‘debt relief’ loan with interest on current \$128 billion in debt of \$27 billion a year (ibid.). “It is estimated that for every one dollar that reaches these countries in aid, eleven is laid pack in the form of debt payments” (Elwood, 2001: 53), revealing themselves as effective tools of global exploitation and economic devastation. Likewise, Poverty Reduction Strategy Papers are formulated by countries along with other ‘development partners’ in search of external financing. They set out proposed macroeconomic, social, and other policies to develop projects and programs to promote growth and reduce poverty.

Poor countries were more negatively affected by changes in the international economy in the 1980s because structural adjustment had led to more reliance on both export earnings and the cost of imports relative to the current status of currency exchange (which has often been devalued to make exports more competitive) and therefore having to produce more. But increases in production rarely indicate the increase of food availability, for example. Between 1980 and 1990 real international prices fell by 70 per cent for the two most important African export crops, cocoa and coffee, and 28 per cent for a third, cotton” (Hutchful, 1995: 394). These conditions have justified further drives to reform agriculture and increase production for export; so they have to produce more and more to earn what they would have when prices for exports were higher.

'Labour flexibility' is a major component to privatization and trade liberalization imposed by the World Bank. While huge influxes in cheap imports through the lifting of import tariffs and devaluation of currency undermine small local producers, privatization of state-run enterprises also require a huge reduction of the government workforce. In Nicaragua, "the number of government employees was reduced from 290,000 to 107,000 in just three years" ("USNFGEJ", para 8, no date), a loss in jobs for 9 per cent of the workforce. Policies thus perpetuate, and sometimes increase, the existing severe inequalities in the distribution of income and power" (Haytor, 1971: 161), evidenced in concomitant deterioration in the working and living standards of the poor in aid recipient countries. In 1973 the US replaced its dollar standard from gold to oil, and OPEC quadrupled oil prices "changed the terms of trade (for the worse) of those dependent on oil imports" (Hewitt, 2000: 297), leading to a decline in other commodity prices from 1972 to 1988 (ibid, pg.299) and increasing unemployment just after a decade of taking advantage of a huge 'labour surplus' in developing countries. The oil crisis is also an example of how decreases in commodity prices has increased capital returns from the export of these goods for the US (Naylor, 1983), and through increased opportunities for benefits, via the various mechanisms employed to induce dollar loans.

Following the oil crisis, Nixon separated gold from the dollar and moved to a system of floating exchange rates. He devalued the US dollar and increased interest rates, which slashed the debt the US owed out to other countries (Elwood, 2001). Under the increased price of oil from OPEC, the cost of US backed petrodollar loans in some cases tripled overnight. The Debt of non-oil producing countries increased five fold between 1973 and 1982 as a result, reaching \$612 billion (Elwood, 2001: 43). The World Bank's

1980 WDR reported that “low income, ‘oil-importing developing countries’ had in 1977 to spend 10.1 per cent of their export proceeds on serving their foreign debt and ‘middle-income oil-importing countries’ had to spend 19.8 per cent” (Haytor, 1982: 76). The debt crisis officially emerged in 1982 when Mexico threatened to default on a loan they could no longer service. Devaluation of currency from reform often means an increase in the amount needed to pay back interest (Lyon, 2005). To keep up with payments, a country often increases production and exports even when the prices of their exports are falling. The Committee for the Abolition of Third World Debt published the following on the fall of export prices, where comparative advantage means that a country has gradually specialized in just a few crops for the world market. “As interest rates rose, the price of these products on the world market fell” (ibid.):

**Table 4.1: Export Commodity Prices**

Product	Unit	1980	1990	2001
Coffee	cents/kg	411.7	118.2	63.3
Cacao	cents/kg	330.5	126.7	111.4
Peanut oil	\$/ton	1090.1	963.7	709.2
Palm oil	\$/ton	740.9	289.9	297.8
Soybean	\$/ton	376	246.8	204.2
Rice (Thai)	\$/ton	521.4	270.9	180.2
Sugar	cents/kg	80.17	67	19.9
Cotton	cents/kg	261.7	181.9	110.3
Copper	\$/ton	2770	2661	1645
Lead	cents/kg	115	81.1	49.6

Source: (Lyon, 2005)

In this impossible situation, countries are forced to refinance loans and the cycle of exploitation and devastation begins again. Debt of HIPC countries was, on average, more than four times their annual export earnings, and 120 per cent of GNP (Lyon, 2005). Structural adjustment has led to severe cuts to social spending, so that more is spent on the repayment of debt. Debt 'relief' then, ensures the payment of debts through refinancing under various adjustment guises.

Lending and interest rates grew in the 1980s and African countries (who had been left after 'independence' with massive public debts with a rate of 14 per cent on colonial holdings) were forced to use more money to pay down the interest, and not the principal debt itself. On Nigeria's debt situation, President Obasanjo said that "all we had borrowed up to 1985 or 1986 was around \$5 billion and we have paid about \$16 billion yet we are still being told that we owe about \$28 billion. That \$28 billion came about because of the injustice in the foreign creditors' interest rates" (Lyon, 2005). Nigeria is a classic case of extreme poverty, inequality and environmental degradation arising in large part from the oil production in the Niger Delta region from MNCs as well as government overproduction for, again, comparative advantage.

In 1996, poor countries paid almost \$330 million interest on their debt daily to the banks, governments and financial institutions in the North. (Lyon, 2005) "Compound interest (interest paid on the original balance and on the accrued and unpaid interest) means that the actual money borrowed has already been paid back, and most countries are simply paying interest" (ibid.). Some of the poorest countries in the world spend upwards of nice times more on debt repayment than on basic social services:

**Table 4.2: Percentage of Budget Allocated to Basic Social Services Compared to Debt Repayments for the Period 1992-1997**

Country	Social Services	Debt Repayments
Cameroon	4%	36%
Ivory Coast	11.4%	35%
Kenya	12.6%	40%
Zambia	6.7%	40%
Niger	20.4%	33%
Tanzania	15%	46%
Nicaragua	9.2%	14.1%

The above country selection (Lyon, 2005) represents countries who took their first World Bank loans between 1982 and 1991. By 1982, Tanzania had signed its first loan agreement, yet a decade later, began making payments on debt as much as 46 per cent of the annual budget. The last of this group to negotiate a loan with the World Bank was The Ivory Coast in 1991. A year later it began making debt payments to the World Bank, averaging 300 per cent more than monies spent on social services for the following 6 years throughout the 1990s. In Tanzania “where 40 per cent of people die before the age of 35”, debt repayments were 6 times greater than healthcare spending in 2001 (Elwood, 2001: 51). Ethiopia spent four times more on debt repayments than healthcare at the same time when 100,000 people were dying annually from preventable diseases (ibid.).

Africa has seen external debt balloon by 400 per cent since the onset of structural adjustment (Elwood, 2001) and had by the turn of the century “transferred four times

more to Northern creditors in debt payments” (pg.51) than was spent on healthcare. Debt has had a track record of redirecting government spending in developing countries towards interest payments on debt. Total debt for 45 African countries increased from \$10.6 billion as far back as 1971, to about \$137 by the end of 1984, growing annually at a rate of 25 per cent (Cheru, 1989: 22). Africa’s total debt increased from \$203.7 billion in 1986 to \$271.7 billion in 1990 in spite of debt refinancing that year (or ‘relief’) amounting to \$23 billion (ibid.). “Each percentage increase in domestic interest rates adds millions to debt service costs” (Elwood, 2001: 88), and in Brazil’s case, total external debt by 1999 was over \$230 billion. Indebtedness can give the illusion of growth when looking at the numbers because although rises in GNP and GDP are considered indications of economic growth, more money continues to be used to service debts from existing loans.

As evidenced, the 1980s were a terrible decade for developing countries, as in order to reduce inflation, “OECD countries slowed down their economies, thereby depressing prices and demand for commodities, and allowed interest rates to rise” (Hewitt, 2000: 300), where developing countries paid out more and more to service debts and received less for exports. The resulting debt crisis erupted and poor countries paid more in servicing their debt than they received as loans from 1983 to 1988; this figure amounted to some \$160 billion (South Commission, 1990). Coupled with ongoing adjustment policies requiring the removal of import quotas and reducing tariffs, vulnerability to the ‘free’ market seemed almost scripted to benefit the donors of the aid. In fact, for 20 years, “poor countries have financed the World Bank, while it is rich countries that contribute only  $\frac{1}{4}$  of total funds and hold  $\frac{3}{4}$  of the votes” (Mazzei, 2007).

Through debt from aid, resultant poverty is financing long-term growth of the capitalist class of the imperialist countries.

The debt crisis hit around 1982 when many countries (including Mexico), unable to generate the earnings sufficient to finance their economies after reforms – creating huge balance of payments deficits, were incapacitated by declining terms of trade to make payments on the interest of outstanding loans. Debt service includes both principal and interest payments, yet many countries are unable to keep up with interest, hence the rise in overall debt. By the end of the 1980s, Third World debt doubled to almost \$1,500 billion, and by 1999 it had soared to nearly \$3,000 billion (Elwood, 2001). Most of this debt amounts to loans used to pay interest on existing debt, ensuring the continuation of the cycle. The official response to the debt crisis was to therefore look for new ways to loan. In ‘debt relief’, “the point is to recover the amount lent or, if not, receive interest on it” (Ugarteche, 1983: 195) even when the political and economic benefits are completely in the favour of donor countries. Instead of canceling debt, it is refinanced to make it ‘sustainable’ in the long term. The World Bank states in its *2001 World Development Report* that debt servicing is not really a problem though, because heavily indebted poor countries receive more money from donor countries than they pay back (World Bank, 2001). Debt is not forgiven but refinanced to make it more ‘sustainable’, yet one could interpret this as meaning sustained debt repayments, made in smaller installments but over longer periods of time, leading to overall increases in payments. Debt cancellation or defaulting on a loan is not an option, so the MDG of developing a partnership for development provides the commitments necessary to further increase levels of development aid. In the early 80’s countries like Mexico and Brazil could no longer

service their official debts. The debt crisis then facilitated the spread of structural adjustment in the 1980s, designed to impose the ‘stabilization’ “of strict fiscal and monetary discipline on indebted countries as a condition for receiving short-term balance of payments credits (SAPRIN, 2004: 1) to finance development and poverty reduction. These realities have persisted, despite massive flows of aid to the South as well as massive crusades in the name of the poor. Some recent cases exhibiting this recurring pattern are of note. Greg Palast found that “Ecuador was ordered to raise the price of cooking gas by 80 per cent by November 1, 2001” by the World Bank and IMF, which led to riots known to Joseph Stiglitz as “the IMF riots” (Palast, 2003: 145). Under the Ecuador Interim Country Assistance Strategy including over 167 conditions for implementation, the \$1.5 billion loan required the liberalization of various sectors and price increases in basic necessities to service the interest payments, and subsequent “Assistance Plan” eliminated a further 120,000 jobs (ibid.). In Bolivia, International Water Limited (Bechtel Corporation of San Francisco) was formerly headed by Nixon’s Secretary of State George Schultz (ibid.). From February to April in 2000, protests in Cochabamba erupted from a 35 per cent hike in water prices from the full privatization of the city’s water services. World Bank development funds led to the arrival of “private bank consortiums to fund the various projects that Bechtel had in mind” (Wood, 2006). After it was expelled amid massive social protest, it filed a lost profit claim for \$25 million on February 25, 2002 in accordance with an ‘insurance guarantee’ pre-negotiated with MIGA under the terms of its contract (ibid.).

The HIPC Initiative was launched in 1996, and in 1999 it was broadened by boosting the number of eligible countries, thereby increasing the amount countries would



receive and speeding up its delivery (IMF, 2001). PRSPs were introduced in late 1999 as a device to help ensure the proper use of debt relief under the Enhanced Highly Indebted Poor Countries Initiative (HIPC2) (Booth, 2003), and Booth (2003) contends that “PRSP processes can promote changes leading to more effective poverty reduction” (pg.1). After implementing a PRSP to the satisfaction of the World Bank and IMF, \$3 billion in debt service relief for Tanzania under the Enhanced HIPC Initiative (or HIPC2) was announced in 2001. In exchange, Tanzania “committed to undertake work in three areas in order to reach the completion point and receive irrevocable debt relief under the enhanced framework, including the completion of a full PRSP and implementation of the PRS, an IMF directed Poverty Reduction Growth Facility program, and implementation of a set of social, structural and institutional reforms” (IMF, 2001). In 2001, 24 countries in sub-Saharan Africa had received debt relief packages under the Enhanced HIPC Initiative framework (ibid.).

In 2006, almost \$60 billion in debt relief was committed to those countries eligible for HIPC status and where estimated debt service payments were at 6 per cent of export earnings in 2005 (United Nations, 2006: 30) Under ‘debt relief’ or refinancing of debt, developing countries need more aid (United Nations, 2006 & 2007) and “engage in borrowing to meet the increased needs for financing poverty reduction strategies” (United Nations, 2006: 29). In 2005, aid rose to a record \$106.8 billion due to debt relief operations, notably to Iraq and Nigeria (ibid., pg.28). Where debt service ratios – or the percentage of a country’s export earnings spent on debt payments – was 40% in 1986, debt refinancing – the borrowing of money (aid) by a debtor country to help pay off a

previous loan is offered to the extent that it allows for further loans at higher rates of interest from the 'risk' of lending to countries at risk of default.

The World Bank is a bank. Its primary interest in profit is its bottom line. Hence, the fundamental character of debt is rooted in the capitalist system and results from the initial deployment of aid (capital export) promoting investment of foreign finance capital in the national interest, but portrayed as reflecting the interests of all. Nevertheless, national economic motives are largely inherent, and political motives are informed and driven by the opportunities they can exploit to invest for profit. And the World Bank is perfectly positioned to push the agenda of the MNCs of the United States and its friends. "The nature of the instruments of policy intervention such as aid, necessarily operate so that "the global market system marks the end of the 'national economy' (i.e. national industry geared towards the domestic market" (Chossudovsky, 1999: 26), and "feeds on social divisiveness between and within countries" (ibid, pg.27). Thus, national development is intricately linked to the international sphere" (Dickson, 1997: 33) through the aid-adjustment-investment-debt-profit-aid cycle of 'fighting poverty'. Investment that should be made in public government institutions is instead filtered through the World Bank in the interests of the US Empire.

Since around the 1980s, there has been much debate between project planners and managers about whether or not poverty rates have actually increased as a result of development aid. "By the second half the 1980s, one quarter of overall World Bank lending was being extended in the form of non-project, structural adjustment loans" (SAPRIN, 2004: 2) and SAPs became the only acceptable economic strategy acceptable to the US Treasury (ibid., pg.3). But the histories of country realities reflect the structure of

imperialism at the global level through World Bank brokered loans and ‘debt relief’ on behalf of donor countries, as accomplishing the antithesis of its goal to eradicate poverty. Through the debt mechanism, poverty is financing long-term growth and expansion of the capitalist class, notably in the imperial countries who invest money in the developing world through the World and other IFIs under the auspices of a mission for global poverty eradication.

### **Foreign Direct Investment and the Multinational Corporation**

The Bank’s business is to motivate borrowing demand in a range of ways. After all, “the IBRD was tailored to give a governmental framework for future private investment, much of which would be American” (Kolko, 1972: 16). Former head of the US Treasury Henry Morgenthau pointed out that under the encouragement of the World Bank, “...international trade and international investment can be carried out by businessmen on business principles” (Ibid.). In the 1970s “foreign aid was henceforth to be ‘tied’ – that is, the underdeveloped country could only purchase products made in the United States” (Turgeon, 1980: 64). The condition that aid be required to ensure markets for donor countries “remains one of the most egregious abuses of poverty-focused development assistance” (UNDP, 2005: 8). Rather than viewing tied aid as an abuse of aid as the UN does, the World Bank’s Articles of Agreement aimed at fostering private investment would infer otherwise. Tied aid has also been shown to favour non poverty-focused projects, as it skews spending towards projects which have profitable advantages to donors and exposes aid as connected to both economic and political conditionality. Developing countries are therefore compelled through ‘tied’ aid to invest in inviting

infrastructure for FDI and eventually increased free trade. If a high savings rate is good for growth, how would developing countries grow under conditions requiring a greater proportion of the annual budget for interest payments on debt? Where conventional criteria for growth includes reduction of inflation (Hewitt, 2000 & Hutchful, 1995), it would appear that capital export from developed countries actually serves to create conditions for the growth of the capitalist class from imperialist countries with investments made in the poorest. Likewise, the loss of jobs from exporting production to developing countries in the home imperial territory is of little consequence to the necessary movement of capital in search of the greatest profits.

Shedding the so called 'Keynesian' legacy of McNamara at the Bank in the 1980s, A.W. Clausen "increased the degree of co-financing undertaken by the World Bank in conjunction with private financial institutions" (Naylor, 1983: 109) and helped draft the documents which became the MIGA. Further to that a "report of the US Treasury investigation into multilateral international development banks gave them the ultimate accolade – of being good for US business interests" (ibid.). This change occurred, despite the fact that the World Bank did not loose a penny on its loans and investments in its over thirty-five years in operation. The IMF likewise states that openness to capital investment offers opportunities to diversify into new sectors (Prasad et. al., 2003: 43), and that North-South flows of capital benefit everyone "in theory" (ibid., pg.13). This is counter to the law of comparative advantage professed through the GATT, where "open trade would allow countries to specialize...and thereby achieve higher levels of growth and well-being" (Spero & Hart, 1997: 52), under structural adjustment and foreign direct investment. Since around 1980, the World Bank also began insisting on more explicit

required conditions for aid, including reforms and privatization of state enterprises, currency devaluation, increases commodity crop exports and other neoclassical driven fiscal policies of market integration, in order to carry out its new objectives like ‘nation building’, which is really a euphemism for the monetarist philosophy of finance capital that blocks governments from refusing foreign direct investment or raising the living standards of the poor.

One must consider the current nature of the imperial system implied here. Patterns of FDI should satisfy the suggestion that corporations of imperial states typically benefit from the aid process. In the 1960s, a substantial increase in foreign direct investment saw “approximately 70 per cent of capital flows into developing countries were from the investments of transnational corporations” (UNDP, 2005: 293). In the 1990s, rapid growth of private capital flows to developing nations added up to \$115.7 billion (in 2000), more than 60% of the funds flowing into the developing world. In 1997, just five years later, they rose to \$315 billion, or 88% of the total. In 2000, private investment by multinational corporations (in the form of FDI) accounted for nearly 70% of the total (ibid., p.184). The problem of perspective, however, persists as the Bank fails to disaggregate data from the national level so that readers can gain a clearer picture of the oeuvre of aid. The International Development Association, an arm of the World Bank designed to lend money to the poorest of nations, doled out “more money to British corporations for contracts in 1993 than it committed in future loans to Bangladesh” (Karliner, 1997: 1), one of the most impoverished nations on earth.

One way that the World Bank has historically served as an agent of US economic interests is through Bank sponsored privatization programs that open the economy up to

‘competition’ from foreign firms for investment and development of industry. Contracts are disproportionately awarded to multinational corporations that reside in the US. While support for large scale projects like dams and power plants have come under much scrutiny, they continue to be financed through loan guarantees and partnerships with the International Finance Corporation and the Multilateral Investment Guarantee Agency: the two Bank-affiliated institutions that underwrite private sector investment. As Haytor (1982) observes, much of foreign investment is actually the take-over of existing local businesses” (pg.76). So talk about capital export and repatriation using mechanisms that require significant adjustment and shock reforms *a priori* loans and repatriation of capital to imperial centers via the global economy it dictates. Far beyond the ‘national treatment clause’ ensuring that countries cannot discriminate against products of foreign origin” (which the WTO’s Dispute Settlement Body, the IFC and MIGA usually handle when such a violation occurs) (Elwood, 2001: 36), ‘tied aid’ preempts a solution by securing exports from the imperial state to developing countries at market prices. Standards for health, labour, food security and any other formerly ‘national interest’ in the recipient country can be overturned as a ‘barrier’ to free trade. When this happens in the reform of agriculture, for example, the remedy is increased technological inputs to increase production. This is what has been observed in relation to the solution to hunger.

Despite recent scandals, the bank remains a powerful conduit. In most of its client countries, it is the only doorway to international trade, development finance and private investment capital. It derives its power and policy agendas from its wealthiest shareholders -- governments that comprise the G-7, which routinely use the bank to secure lucrative trade and investment deals for their respective trans- or multi-national

corporations (MNCs or TNCs) in developing countries. Through World Bank projects, a significant amount of money is directly funneled to the private sector to help encourage the need for infrastructure from which they can operate industry. Increased physical and institutional infrastructure in sectors such as energy, transportation, extractive industry and telecommunication is essential to opening the economy to investment, but also dependent on the restructuring of key sectors such as health, education, water and agriculture in the development of private sector, and mitigating investment associated risks for private companies.

Although the World Bank insists that procurement and contracting are the responsibilities of the implementing agency (usually a government department), privatized assets and construction, consultancy and procurement contracts generally go to large corporations, contractors and consulting firms from the imperial state that are well versed with the Bank's rules for bidding and procurement. Often, representatives of industry are very much involved in policy making, along with the powerful donor countries as central stakeholders in development aid for poverty eradication, where there is a fundamental conflict of interest between developing countries and multinational corporations. Through aid, loan recipient governments spend their own money (or borrowed money) on infrastructure that is convenient and necessary (often a condition) for the incursion of profitable foreign direct investment by American and other Western corporations. It would be mistaken to say that foreign investment by multinational corporations finance industrialization in developing countries because any industrialization allowed is, in the end, financed by the developing countries themselves.

“Third World countries accuse multinationals of importing the wrong (capital-intensive) technology and of repatriating too large a percent of the surplus generated by their activities” (Turgeon, 1980: 64). For example, with a loan of \$269 for an ethanol maker in Brazil, the Washington-based Inter-American Bank will soon join the World Bank and US corporations like Carlyle/Riverstone and Goldman Sachs Group Inc. to produce ethanol from sugar cane. The World Bank notes that “about 75 per cent of new corn grown globally over the past three years has gone to make ethanol” (Regalado, para 4, 2008). In large hydro-power projects, according to Shalmali (2007), the World Bank routinely assists host governments and private contractors in project preparation and mobilizing project finance: it hires private consulting firms to work alongside government departments to design projects and implement arrangements, mobilizes project financing (through IFC) and underwrites loans (through MIGA or other partnering risk guarantors). The costs of environmental and social mitigation are left to the government and society, and the terms of project financing and guarantee generally favour private foreign companies with capital to invest.

The relationship between corporations and the state constitutes a complex system of intertwined interests and connections. Also, the relationship between corporations and international aid agencies is multifaceted, illustrating the appearance of similar aims and interests regarding the progression of corporate interests and objectives through foreign direct investment. This is particularly important when considering the role of the multinational corporation in foreign direct investment within the aid arrangement. Often, theorists like Michel Chossodovsky have argued that state power has deliberately sanctioned the progress of private monopolies, where the internationalization of macro-



economic policy renders the international financial and trade institutions “as agents of corporate power” within aid recipient countries (Chossudovsky, 1999: 19). Economic and political domination, or ‘market colonialism’ has the tendency to subordinate people and governments through the seemingly neutral interplay of market forces. For Chossudovsky, at no time in history has the free market, operating in a world through the instruments of macro-economics, “played such an important role in shaping the destiny of sovereign nations” (pg.34). For example, western corporations were eager to capture a part of India’s domestic market as well as obtain – with the help of the World Bank and GATT rules on intellectual property rights – the abrogation of India’s 1970 patent law. This enables them to register product patents in manufacturing as well as in agriculture (through plant breeder’s rights) thereby virtually gaining control over a large portion over the Indian economy.

Agreeing that multinational corporations have an integral part to play in the continuance of American economic influence and dominance, Petras & Veltmeyer (2005) concede that US MNCs have a market value more than double that of Europe, its closest competitor. Additionally, they suggest that MNCs are the primary agent of economic imperialism. Still, despite chiefly national interests by state based corporations, the task here is to focus on the structural mechanisms that the US can employ at the level of supposedly global interests. It is far more difficult to conclude that the World Bank acts in specific accordance with American Imperialism than it is to argue the same for corporations anchored in the imperial state. But let it not be confused that the multinational corporation does not rely on IFI’s like the IFC to transplant alterations to the political and economic direction of their development especially under the label of

fighting poverty and crucial investment in infrastructure to attract in. Indeed this relationship is documented, as the United States controls 80 per cent of the top 10 MNCs (Petras & Veltmeyer, 2005: 72). Therefore, any serious discussion of the dominance of the US Empire must account for the predominant role its MNCs play in the direct investment of finance capital from World Bank programs into directly strategic projects. And funding for the IFI's is directly dependent on the imperial states (ibid., pg.50). The continued push for neoliberal and private interest-based strategies for growth and export production are challenging the customary rights people have had to land, yet the veneer of empowerment, participation, and ownership is central to the real success of development aid – the success of its aims as observed in its results.

The process of foreign direct investment by predominantly American multinational corporations is increasingly supplemented by the emergence of more informal mechanisms through which the World Bank favours the foreign policy strategies of the United States, including the role of the NGO and of micro-credit. Reinforced by the “belief already held in the United States as a result of various disastrous experiences in the 1920s – the belief that it is unsafe and unwise to lend to governments” (Ward, 1954: 90), the justification for implementing development aid and programs directly through NGO's for poverty reduction is supported by the Bank and the influence of the donor country is felt more directly. The Bank supports the resurgence of support for more aid to NGO's and civil society groups concerned with reaching the MDGs. Of course NGOs also have a stake in ensuring continued flows of funding to their organizations. When local governments are considered corrupt, aid is sometimes directly filtered through international organizations and western NGOs, bypassing national regulation and

oversight. The repackaging of neoliberal imperialist policy into ‘grassroots’ initiatives driven by the poor has led to a massive use of NGOs as a way to evade opposition to adjustment and imperialist policies in general. Petras (1997) observes that in the early 1980s, the US and European governments and the World Bank increased their funding to NGO’s to subvert social movements by working at the local level and “became the ‘community face’ of neoliberalism” (ibid.).

A major application of this method is reflected in the rise of micro-credit financing, where “the basic point of convergence between the NGOs and the World Bank is their common opposition to ‘statism’, reproducing conditions that undermine national public service provision and deceptively reaffirming the ‘local’ in the image of those funding such organizations. Again, the emphasis on ‘local activity’ “serves the neoliberal regimes since it allows its foreign and domestic backers to dominate macro-socio-economic policy and to channel most of the state’s resources toward subsidies for export capitalists and financial institutions” (Petras, 1997). In Bolivia after growing debt and poverty from SAP implementation during 1985, the number of Bank funded NGO’s grew rapidly from new international loans for a ‘poverty alleviation program’: “prior to 1980 there were 100 NGOs; by 1992 there were 530 and growing” (ibid.). Clearly the language of ‘local empowerment’ is carefully concealing a reproduction of imperialist policy and actively bringing the poor into the market economy at the local levels – re-creating the same consequences as it does at the macro-economic level while undermining public government solutions and legitimacy.

Micro-credit is the extension of small-scale credit and other financial services to the poor. The NGO Microcredit Summit reported a 48 per cent increase in microfinance

clientele just between 1998 and 2000, to 31 million participants. Nearly two thirds were classified as the ‘poorest of the poor’ – and a large share were women. In the founding microcredit bank in Bangladesh, the Grameen Bank, 94 per cent of borrowers are women (Gardner, 2002). Microcredit is said to allow poor people to increase incomes by starting new enterprises, thereby diversifying income and increasing resiliency. In India where the micro-credit phenomena originated, The World Bank estimated that in 2007 “nearly 40 per cent of India’s 1.2 billion people must get by on less than a dollar a day” (Hiscock, 2007). Micro-credit is building “ideological bridges between the small-state capitalists and the monopolies benefiting from privatization” (Petras, 1997) and “setting up competition between communities for scarce resources” (ibid.) re-embedding the central role of the market (and participation within it) as the solution to poverty and taking “private responsibility for social problems” (ibid.).

### **World Bank Adjustment, Agriculture and the Current Food Crisis**

Hunger is the most extreme form of poverty as food is the most basic requirement for survival. Where in 2004, almost 1 billion people lived below the international poverty line earning less than \$1 per day (World Bank 2007c2), chronic hunger and malnourishment require that people constantly try to secure food and are unable to provide for their families. In 2006, 854 million people across the world were hungry, up from 852 million in 2005 (FAO, 2006). Despite clear results from past ‘efforts’ to reduce poverty through agricultural reforms, the 2008 World Bank Report *Rising Food Prices: Policy Options and World Bank Responses* cites a recent dramatic rise in food prices for millions of people in the poorest food importing countries. It highlighted the interconnections between achieving the reduction of poverty by half and the other MDGs related to health

and agriculture through increased levels of aid. The historically documented causes and effects characterizing the transformation of agricultural production (from production for use to production for export) during sweeping economic reforms to developing countries have had wide-ranging impacts on poverty and hunger. Food security is undermined by the insistence that food and crop production transition to cash crops for export on their 'comparative advantage' potential. As evidenced through many instances discussed in above sections, the element of national imperial interest is never far from the policies laid out by the World Bank development aid loans.

Other than promoting particular economic reforms and policies, aid is often used as a political weapon, and this is crucial to the importance of food aid. Deepening the undermining of local systems for domestic food production, the kind of food aid from the United States came in the form of 'Food for Peace' programs, and "is highly susceptible to political manipulation" (Haytor, 1982: 85). US National Security Council member Dan Ellerman said in 1974 said that "to give food aid to countries just because people are starving is a pretty weak reason" (ibid.). The Office of Political Research at the CIA also pointed out that in a hungrier world, "the United States near-monopoly as a food exporter...could give the United States a measure of power it never had before – possibly an economic and political dominance greater than that of the immediate post-World War II...years...Washington could acquire virtual life and death power over the fate of multitudes of the needy" (ibid., pg.86). At the 1974 World Food Conference in Rome, the US Secretary of Agriculture said that food "is one of the principal tools in our negotiating kit" (ibid., pg.87). Back in 1957, Senator and former Vice-President Earl Butz said: "I have heard...that people may be dependent on us for food. I know that is not supposed to

be good news. To me, that was good news, because before people can do anything they have to eat. And if you are looking for a way to get people to lean on you and be dependent on you, in terms of their cooperation with you, it seems to me that food dependence would be terrific” (ibid., pg.86).

Accelerated market-based agricultural reforms that shift local production to intensive production for export have linked the commodification of food and an emerging flexible cheap labour force (McMichael, 1999), through the movement of both (Via Campesina, 2000). The lowering of labour costs also naturally undermines the capacity of the poor to purchase goods for consumption that they previously did not ‘work’ for, in the sense of the term which means that they are subject to increased prices of commodities on the world market that their own countries may produce. Through disengagement of domestic subsistence production, increased exports also transfer into lowered purchasing power for the exploited poor. World Bank support for large scale agro-industrial projects aimed at increased food production speeds up “the process of deforestation and the destruction of the natural environment, leading to forced displacement” (Chossudovsky, 1999: 33). The resultant concentration of urban slums (Davis, 2006) where 43 per cent of the Global South’s population lives (McMichael, 2006; Davis, 2006: 13; Vidal, 2003) is caused by this movement by both food and people, and elucidates “a seemingly simple relationship [that] goes to the very heart of the global restructuring of capitalism” (McMichael, 2006: 474).

During agricultural reforms (as in all extractive sectors covered by aid for adjustment) state enterprises are privatized and independent producers are phased out by competition with MNCs. Such transformations in a system that generates overproduction

and poverty simultaneously can only expand markets “by concurrently undermining or destroying the domestic productive base in developing countries, i.e. through the disengagement of domestic production geared towards the internal market” (Chossudovsky, 1999: 17). The concentration on export contracts erodes internal purchasing power where poverty becomes an input on the supply side (ibid.). The Green Revolution created an intensive output industrial system of export for primary resources. While food production had indeed increased [with input intensive practices like genetically modified seeds and fertilizers] fewer people proportionally are able to buy it and millions have been deprived of the means of producing food for themselves” (Seabrook, 2003: 82). For example, rice farmers in Haiti are increasingly unable to grow it. In 1995, the World Bank imposed a drop on import restrictions, and through tied aid – Haiti was immediately flooded with rice from the US, which is heavily subsidized by the US government (Hari, 2007), the antithesis of policies they both proselytize developing countries to adhere as conditions for growth.

The 1999 PRSP initiative was a refashioning of SAPs, and “most PRSPs for all their emphasis on ‘pro-poor’ growth, do not include inclusive decisive measures to redistribute wealth and promote equality” (Abrahamson, 2004: 85). Instead, the Bank’s 2003 report *Land Policies for Growth and Poverty Reduction*, promotes solutions to the “land question” in “private property” (Moore, 2004: 98), helping secure private property rights for individuals in the form micro-credit schemes and incorporating them into the global market economy. The pro-poor rhetoric of agricultural reform policies bases development on “inclusion and participation, bringing together civil society, local competition, NGOs, the private sector and the poor themselves...in order to foster trust

and sustainability” (Wolfsensohn, 2000), while placing the onus on the poor for reductions in poverty in an investment climate created clearly against the interests of small local producers.

In recent months, The United States Agriculture Department reversed its 10-year outlook to account for rises in world hunger instead of previously projected declines. As the current economy driven global food crisis spirals out of control, a USDA Food Security Assessment reveals that “the number of ‘food insecure’ – or those who cannot acquire enough food for the household throughout the year – in 70 developing countries rose to 982 million in 2007 from 849 million in the prior year, ...and could rise to 1.2 billion by 2017” (Reuters, 2008). A general lag in global economic growth now continues to create rises in food prices, further deteriorating food security. In effect, ‘free trade’ consists of specific economic policies that support key corporations to operate under lower environmental regulations in countries with cheaper sources of labour – a recipe for success. A global economic system characterized by two opposing forces: the consolidation of a global cheap labour economy on the one hand, and the search for consumer markets on the other where the former undermines the latter. There is definitely ‘economic’ growth, just not the kind that eradicates poverty. The World Bank is a preferred emissary for the investment of finance capital in search of profits. The genius of this strategy lay in the fact that aid to the poor has created massive benefits for the West while poverty and inequality have intensified. This tendency raises the specter that short term interest in productivity may lead to long term detriments in securing food security and reducing poverty at all. The corporatization of agriculture (McMichael, 2006) through liberalization, WTO sanctioned rules, and agricultural reform for export has “been



globally synchronized to the detriment of farming populations everywhere” (ibid., pg.473) through World bank adjustment strategies. Instead of redistributing land and subsistence capacity for the poor, massive influxes of imports have destabilized small producers and national industries, as foreign investment has necessitated the privatization of government enterprises as part of the aid-reform package. Even as the bank expanded its rhetoric about environmental sustainability as key to food security in the 1990s, for instance, its projects advocated increasing farmers' access to agro-chemicals and genetically modified seeds. During this time, the bank also entered into business partnerships with nearly all leading pesticide and biotechnology companies through a staff exchange program that involved 189 corporations, governments, universities and international agencies.

The most frequently used rationale for genetic engineering of food is to raise productivity and therefore decrease hunger and poverty for a growing population. So solutions to food scarcity and security have recently been answered by multinational seed corporations in tandem with the World Bank for increased production of ‘high-yield’ seed varieties for some of the most basic crops. The symbiosis between the World Bank and American corporations is well demonstrated in the biotechnology and agrochemical industries operating in developing countries. The World Bank's agriculture policies have been practically written by corporations such as Monsanto, Aventis, Novartis and Dow Chemical. A marketing analyst from Aventis (now Bayer CropScience) spent nearly four years in IBRD to develop IBRD's position on agricultural biotechnology and strategies to leverage financing through IFC (Petras & Veltmeyer, 2005). Novartis' (now Syngenta's) head of public affairs spent a year working on outreach strategies for the World Bank's rural development unit. Bank officials from within in Novartis and Rhone Poulenc Agro

(now part of Bayer) in the late 1990s assisted them with biotechnology regulatory issues and rural development partnerships (ibid.). The Bank thus adjusted its agricultural strategies to satisfy leading biotechnology and agrochemical corporations, which in turn gained access to public policy making in developing countries (ibid.).

Rostow (1960) proclaimed that “revolutionary changes in agricultural productivity are an essential condition for successful take-off” (pg.103). In Iraq for example, Coalition Provisional Authority heavy-weight Paul Bremer enforced a number of directives before handing over ‘sovereignty’, including the prohibition of “Iraqi farmers from harvesting seeds and thus sowing them for production of the next year’s crop, as has been standard practice for millennia” (Petras & Veltmeyer, 2005: 200). Instead, they will buy seed from the multinational agribusiness conglomerates such as Monsanto, Dupont, Syngenta, Bayer and Dow Chemical” (ibid.), pushing ‘high-yield’ and ‘improved varieties’ of crops, which are synonyms of genetic modification, and even allude to the tinkering of pharmaceutical applications to food. This resonates, when just recently, trade talks aimed at reinvigorating the Doha Round collapsed in July after the US refused to adopt a “special safeguard mechanism against import surges in food products such as rice” (Pomeroy & MacInnis, para 9, 2008), from countries like India and China requesting safe guards they were demanding to deal with falling prices of exports, such as import tariffs. This would have made it more difficult for the US to ensure markets for its exports.

### **Privatizing Human Rights to Water in Ghana: Instruments of Dispossession**

Water scarcity is an issue explicitly related to poverty that has taken on great importance over the last decade because of its relation to other development goals, as well as increasing water related stresses. Having a global impact, it is now at the forefront of the

international agenda as “projections of huge gaps between supply and demand and fears of conflict over water” (Gardner, 2002) have skyrocketed. Water stress, defined as countries that consume more than 20 per cent of their renewable water supply each year) has become an important conceptual tool for measuring levels of absolute poverty (ibid.). The United Nations estimates that more than one billion people in the world today are without safe drinking water and nearly three billion lack access to adequate sanitation – two conditions with serious consequences for development. It is not surprising then, that about half of the people in the developing world suffer from diseases caused by contaminated water, and an estimated 14,000 – 30,000 people die each day from water-related diseases” (ibid.). Most infections are either water based or related, and so water scarcity can be seen as a significant factor contributing to illness and deeper poverty despite huge imports of international financial ‘assistance’ and aid.

About 2 of every 10 people (20 per cent) in the developing world were without access to safe water in 2000 and half lived without adequate sanitation (World Bank, 2004a: 159). In Ghana, a long history of heavy induced dependence on international financial institutions has left this once self-sufficient nation in a precarious position where in 2003, “over 30% of the population” (UNDP, 2003) were considered to be living under the poverty line. Viewed by some to be the pillar of World Bank success stories, Ghana opted for ‘dept relief’ under the Heavily Indebted Poor Country (HIPC) program in 2002 after decades of high intensity agricultural production for export where land exhaustion and unemployment has led to an increase in dependence on international economic structures. The World Bank’s 26<sup>th</sup> World Development Report for 2004, *Making Services Work for the Poor*, contends that affordable access to services is low and often fails –

especially for poor people (World Bank, 2004a). Couched in the rhetoric of ‘clients and providers’, a user-based fee system is employed with results analyzed within both ‘pro-poor’ and ‘cliental-based service delivery environment’ frameworks. ‘Increasing client power by choice’ (ibid.) is impossible given the tendency of foreign investment to displace domestic production – therefore creating a monopoly on ‘choice’. Through various reform programs from aid underway for the delivery of basic social services, the privatization and liberalization approach is reorienting water pricing so that it reflects the full environmental costs and benefits of the service being delivered (Goldblatt & Davies, 2002: 382) by foreign investors.

Ghana provides a useful case in exploring some of the more obvious ways in which development has led to an increase in dependence on biased international economic structures, and poverty has increased in real terms as a result. One does not have to look very far for proof that growth-centered economics driven by particular powerful states is pushing the regenerative capacities of nature beyond repair. One of the primary goals of structural adjustment programs, of which Ghana has been party to plenty, is to focus on comparative advantage principles by privatizing and exporting basic commodities to the global market after devaluing currency for a ‘competitive edge’. Conditions attached to aid attempt to transfer control of goods and services provision from national governments and into the hands of private companies, always tilting the playing field against poor countries as a matter of fact. Donors do plenty to ensure equality of opportunity but never in tandem with an equality of condition. In response, developing countries are usually in no position to determine the direction of assistance funding and national policies for social services and environmental policies, placing the control of these provisions in the hands

of private – for profit – companies. Effects on the environment have been confounding, in the case of Ghana “where forests have given way to deserts and national debt has reached a staggering \$7.2 billion” (Goldsmith, 2003). The point here is to explain why decision makers (in the case of Ghana, the World Bank and its subsidiaries) when confronted with problems, invariably interpret them in such a way as to justify solutions that already fit their agenda.

After beginning an Economic Recovery Program in 1983, The Ghanaian government has been struggling to balance pressures from international agencies to cut back the states role in providing social services with meeting domestic social responsibilities. In response to water scarcity, the World Bank has perused an aggressive plan to privatize the water services and offer contracts to two of the world’s largest firms: Suez and Vivendi of Europe. In 1999, the bank insisted that Ghana privatize its publicly owned services, including the Ghana Water Company. In preparation for privatization, the government moved to accept a policy of achieving full-cost recovery, “in which water tariffs are priced without any public subsidy to keep prices in check” (Weissman, 2002). This means that the economic value placed on water (which increases as the supply decreases) will be reflected in the price paid by ‘customers’ and will include the cost of the water, operations and maintenance costs as well as a profit margin. The World Bank suggests that cost recovery is a valuable policy objective in its own right, and it can also help to reduce wastage and unnecessary consumption through this sort of economic incentive.

The World Water council, a think tank whose membership includes the World Bank, global water corporations, the UN, governments and the International Private Water

Association, agree that privatization is the key to solving the water crisis in Ghana. They presented a ‘world water vision’ “endorsing an aggressive for-profit future for water and declared that it is not a basic human right but a need that can be delivered by the private sector” (Barlow, 2003). And based on full-cost recovery, companies are able to impose rate hikes that are devastating to millions of people who cannot afford water prices, forcing them to use unsafe and polluted water sources. In Ghana, “just the prospect of World Bank – imposed water privatization resulted in a 95% increase in water fees” (ibid.), and is now at reaching an increase of 300%. Ghanaian consumers who can actually afford water, however, are paying an ever higher proportion of their income to the water companies, if they are employed at all. There are incentives for corporations built into the leasing contracts to increase the amount of water delivered, but leasing terms invariably encourage the private operator to improve profits through service for high-volume richer consumers, rather than low-volume poorer ones, and removes the capacity of the domestic government to intervene, lest the human right to water disrupt business and be considered a barrier to trade. The revenue growth for the water giant Vivendi has been huge. Over a decade ago, Vivendi earned just US\$5 billion from its water revenue; by 2002, it had increased to over \$12 billion” (Barlow, 2003).

Corporations have a primary interest in maximizing the volume of water delivered and revenue generated and they will automatically prioritize upper-income consumers who can buy greater volumes of water. This structural problem is heavily weighted by investments that increase volume as distinct from increasing the number of people receiving water. Ghana is supposed to benefit from a more reliable and efficient system, although investment priorities will work strongly to favour expansion of services for

upper-income users while serving as a disincentive for expanding services to those in poverty and who cannot afford to purchase water for survival and livelihood. As Russell Mokhiber and Robert Weissman argue, “the record of private water company operation in developing countries is very poor. There is little to suggest that private companies deliver ‘efficiencies’ in this area, though they are clearly skilled at extracting enormous profits” (2002b). Because disincentives exist for companies to service low-income consumers, they have a strong incentive to disconnect users who are unable to pay for services, in effect removing individuals from nature based on their inability to pay for the basics of human survival. The logic is daunting and water has effectively become the most valuable commodity for sale today. Prices have become so high in Ghana, that the majority of people cannot afford to buy it, forcing them to use polluted sources. Corporations are now involved in the construction of massive pipelines to carry fresh water long distances for commercial sale, while others are constructing supertankers and giant sealed water bags to transport vast amounts across the ocean to paying customers, all backed by WTO rules.

Relying on foreign donors for the provision of water and adequate sanitation necessary to life has done nothing but undermine local capacity to address needs and suitable solutions to pressing, and very national environmental concerns, often caused by external forces. Research from the International Institute for Environment and Development (IIED) warns that “privatization is unlikely to contribute to achieving the Millennium Development Goal of halving the number of people without access to water and sanitation by 2015” (Budds & McGranahan, 2004), due to its tendency for failing to address underlying social issues or to ensure meaningful public participation, free from the guiding hand of external interests. The General Agreement on Trade in Services

(GATS) establishes a legal framework for international trade in services through both general trade rules and specific national commitments for accessing domestic markets. Once any government decides (or is otherwise compelled) to privatize its water services, under the National Treatment rules of the World Trade Organization (WTO), all the private companies of any WTO member country have the right to compete for that business. Accelerations in the privatization and user-fee-based sale of water to 'clients' are a product of purposefully conceived 'development' which increases commerce but decreases the ability of the poor to pay for water in prevailing conditions of scarce low wage labour and extreme poverty. Water is a public trust to be guarded at all levels of government. It is obvious that an adequate supply of clean water is a basic human right and the best advocates for water (and its safety) are local communities and citizens.

The performance of private water companies in the developing world has been well documented: huge profits, higher prices for water and cut offs to consumers who cannot pay. In Ghana, this process is seeking to address human problems with market mechanisms, undermining the real and necessary potential of ordinary people to determine meaningful participatory and equitable ways to reduce poverty and create a sustainable domestic economy. In terms of the environment in Ghana, these factors are all interrelated, marking a strong connection between development, poverty, and their impacts on the environment, while continuing to 'fight' the problems of poverty using the same criteria that gave rise to them in the first place. Within the context of a history of close contact with foreign aid and investment, Ghana finds itself in an especially precarious position in attempting to meet the MDG of halving poverty by 2015 within prevailing conditions of increasing poverty and environmental exhaustion.



It can be argued that many developing countries like Ghana do not provide lucrative markets for water, resulting in the subsequent movement of water from one area to another for sale. With corporations owning and controlling water, those with wealth will buy more than their fair share, while those without purchasing power will be denied their water rights, and hence their right to life. The privatization of water is the ultimate in human rights violations disguised as ‘poverty reduction’. How ironic. Imperialist economic policies implemented by the World Bank should be seen as being in direct contradiction with meeting the MDGs of halving extreme poverty and ensuring access to safe water. The target of halving the proportion of people without improved drinking water including all the resources that exist for all to use but for no one to own or sell, is impossible under these trends. Instead, aid works to provide returns to the donors regardless of its application. Attached conditions require an increase in poverty and income disparity in recipient countries – the paradox being that the more they repay in privatized social service provision and interests payments on debt, the more debt they acquire.

### **Iraq: Misadventures in ‘Development’**

The World Bank and its regional counterparts (collectively known as the Multilateral Development Banks) consistently serve Western corporate interests in a variety of profitable ways including ‘aid’, and most obviously within those areas of crucial geopolitical strategic significance. American MNC’s benefit from loan programs in the form of development aid in these areas through the acquisition of contracts for eventual return of capital, and in the form of profit repatriation to the imperial state. In this case, large corporations based in the countries that provide the World Bank and IMF with capital

(namely the United States) receive lucrative contracts for Bank financed development projects in the developing world. This has proven a more palatable approach than a focus on bilateral aid from the US directly. These imperial trends are revealing themselves in extreme forms in the current occupation of Iraq, where American national interest is deployed through and enabled by international financial organizations. American companies hold an incredible disproportionate number of reconstruction and development project contracts around the world, for example the largest engineering firm in the US: Bechtel, who in 2006, was operating 22,000 projects in 140 countries in all 7 continents (Juhasz, 2006,). In the 1980s Steve Bechtel Sr., president of Bechtel Company clarified Bechtel's role in the world by saying that "we are not in the construction and engineering business. We are in the business of making money" (McCartney, 1988: 80).

Both US President Bush and current World Bank president Robert Zoellick proclaim that the only way to fight poverty is through more trade (Juhasz, 2006). At the 2005 UN Summit dedicated to the global eradication of poverty, Bush proclaimed that "by expanding trade, we spread hope and opportunity to the corners of the world, and we strike a blow against the terrorists....Our agenda for freer trade is part of our agenda for a freer world" (ibid, pg.3). On September 20, 2001, Robert Zoellick (current World Bank President) announced in a *Washington Post* Op-Ed that 'countering terror with trade' recognized that "free trade and freedom are inextricably linked and that trade promotes the values at the heart of this protected struggle" (ibid, pg.18). In other words, the US announced free trade as a weapon in the 'war on terror' in order to advance its agenda. Global financial institutions have been the preferred international economic tools for US driven 'free-trade' policies and private investment since the end of the Second World

War. All the major US multinational oil firms have made a fortune during the Bush administration, and most starkly following the invasion of Iraq.

To portray a composite picture of the nature of the relationship between World Bank aid and the American Empire, we must address US driven aid policies as exercised through the IFIs and specifically the World Bank. The planned, targeted destruction of Iraqi symbols of cultural identity enabled a ‘clean slate’ from which to instate a society in the neoliberal image of ‘free’ markets. To this suggestion, Nir Rosen argues that “there certainly was no plan on the part of the occupying forces. In fact, that’s the main reason that things have gone so horribly wrong in Iraq; there was no plan for anything; good or bad. The looting was not ‘deliberate’ American policy. It was simply incompetence. The destruction of Iraq’s cultural icons was incompetence, also – as well as stupidity, ignorance and criminal neglect. I don’t believe there was really any deliberate malice in the American policy; regardless of the malice with which it may have been implemented by the troops on the ground. The destruction of much of Iraq was the result of Islamic and sectarian militias – both Sunni and Shiite – seeking to wipe out hated symbols. The Americans didn’t know enough about Iraq to intentionally execute such a plan even if it did exist. And, I don’t think it did” (Whitney, 2007). It appears Mr. Rosen may have forgotten his history. A comprehensive historical analysis of US involvement and foreign policy strategy in Iraq and crippling international economic sanctions during the Gulf War in the early 1990s is beyond the scope of this thesis. At any rate, in February 2003 before the invasion, US war planners contracted Science Applications International Corporation (SAIC) of San Diego, California to form the Iraqi Reconstruction and Development Council in Arlington, Virginia – a “shadow government in exile” of Iraqi Americans who

were planning...in the event that Saddam was ousted (Chatterjee, 2004: 158). SAIC, a top ten Pentagon contractor and a top five CIA contractor, is also the number one National Security Agency (NSA) contractor (ibid.), with its largest income source in surveillance services. The Defense Contracting Command then awarded SAIC a \$15 billion no-bid contract to run the Iraqi Media Network on March 11, 2003, eight days before the invasion began (ibid.).

Questions on the future of the Iraqi economy post-invasion became of central significance long before the unilateral “shock and awe” bombing campaign on Baghdad in 2003. But at that time, on May Day, a confidential memo drafted by the Bush administration appeared in the Wall Street Journal, calling for major layoffs in the Iraqi private sector (King, 2003). The document to which the memo referred, titled “Moving the Iraqi Economy from Recovery to Sustainable Growth” called for a ‘broad-based mass privatization program (ibid.): “private sector involvement in strategic sectors, including privatization, asset sales, concessions, leases, and management contracts, especially in the oil and supporting industries” (ibid.), that form the core of Iraq’s productive economy. Back in 1998, Wolfowitz “advocated the creation of a ‘liberated zone’ in Southern Iraq, and the creation of a provisional government to control the largest oil field in Iraq and make available to it, under some kind of appropriate international supervision, enormous financial resources for political, humanitarian and eventually military purposes” (Vallette, 2005). Earlier provisions also revealed a clear association between US interests and larger development and ‘poverty reduction’ strategies in Iraq through the U.S Millennium Challenge Account in 2002 following the Monterrey Conference, which reaffirmed the importance of private sector investment for achieving the MDGs.

After USAID hired a virtually unknown consultant company called Bearing Point (actually found to be an offshoot of the massive accounting firm KPMG) whose first project was to “collect and destroy the old bills and replace them with new ones by July, 2004 (Chatterjee, 2004: 177). Under the American driven Coalition Provisional Authority in Iraq at the time, this was accomplished with lightening speed, effectively ensuring the ‘de-Baathification’ of the economy – by first removing Saddam Hussein’s face from every bill – not to mention recycling Iraqi’s Trust Fund into American dollars and flooding the economy with them via massive shipments from the US to pay private American contractors like Halliburton, who depend on contracts in Iraq, and certainly the US government, for most of their activities. At the time of the initial proposal however, former senior international finance official at the Federal Reserve Edwin Truman (who had also served in the Clinton administration’s Treasury Department) warned that “this will not be credible to the Iraqi people or anyone else if we try to do it ourselves. The World Bank and the IMF have a lot more experience and a lot more credibility in this than the US government” (ibid.).

Since the oil crises in the 70’s, Juhasz (2006) observes that the US has subsequently used the World Bank and the IMF to secure new sources of oil abroad and to expand US corporate access to that oil, rather than work unilaterally for these goals. While the Carter administration induced the World Bank to invest in oil for the first time amounting to 28 projects between 1980 and 1981 with mostly nationalized companies, the Reagan administration “used the World Bank to force countries to change their laws so that US corporations would gain direct access to their oil” (ibid, pg.66). From 1982-1984 the World Bank funded more than 55 oil and gas projects throughout the world (ibid). The

US was effectively able to use the ‘neutral stance’ of the World Bank to further its agenda with the structural adjustment program in the 1980s. Reagan used structural adjustment and foreign direct investment under the “neutral stance of the World Bank” in the 80’s to under mine OPEC and expand US corporate access to oil (ibid., pg.69), but clearly illustrated in the World Bank’s Articles of Agreement to foster opportunities for private investment for donor countries. But under massive pressures to move from a combat “search and destroy” mission, US political and economic strategy needed a more palatable plan.

Well known as the primary architect of the Iraq War, Paul Wolfowitz was appointed as President of the World Bank during May of 2005, and aided in the extension of American imperialism in the Middle East. He was one of the lead authors of the National Security Strategy in 2002, which called for pre-emptive war on Iraq to secure interests in oil resources. He was previously member to other groups producing similar policy on Iraq for various American administrations. The US can use its de facto power over the World Bank through the president to ensure that any projects reaffirm US foreign policy in the area, where “the World Bank may be able to complete what the Iraq invasion started...US corporate control over the world’s second-largest oil reserves” (Miller, para 4, no date). The World Bank was well on its way for carrying out oil sector related ‘development’ in Iraq, as in 2000, 94 percent of World Bank energy projects throughout the world were oil or gas related (Hari, 2007). One must remember in this context that “the US has 6 per cent of the world’s population, but consumes 25 per cent of the world’s resources, including oil” (Miller, para 8, no date). Wolfowitz also bullied European nations for the complete cancellation of Iraq’s debt post invasion, as it would mean higher

profits for the US as benefactor and overlord of the country through the Coalition Provisional Authority (CPA). He failed in this attempt, and stressed that “coalition partners share in the US vision of a free and stable Iraq. The limitation of sources to prime contractors from those countries should encourage cooperation of coalition members” (Vallette, 2005).

The national interest becomes the immediate prerequisite (but rarely stated justification) for imperialist activity through the IFIs. Predominant US corporate interests materializing in Iraq were reiterated in a June 2004 *Overview of Key Industry Sectors in Iraq* from the Iraq Investment and Reconstruction Task Force at the US Department of Commerce. It outlines a number of key industries and US investment opportunities. Despite the already massive security and military related contracts being filled by US companies, the report states that “agriculture, petroleum, and infrastructure are the prime sectors that should provide a firm foundation for trade and investment” (IIRTF, 2004). In the agricultural sector, the World Bank estimated external funding of \$1.2 billion needed to “initiate market liberalization, competitive production, and phasing out of state subsidies in 2004 (ibid., pg.2). As early as October 21, 2003, USAID announced a \$5 million contract to Development Alternatives, Inc. for the Agriculture Reconstruction and Development Program for Iraq (ARDI) (ibid.), just months after the invasion. Concentration in infrastructure contracts resides with Bechtel, while the importance of NGO’s is also highlighted in the development of industry sector production in the report.

On June 15, 1950, The World Bank loaned to Iraq (and the Middle East) for the first time. Loan 0026 was for the Wadi Tharthar Flood Control Project loaning \$12.8 million to Iraq for the construction on the Tigris River of a flood control system (World

Bank, 2008d). A founding member of the World Bank, Iraq received six loans between 1950 and 1973 for agriculture, education, flood control, transport and telecommunications. The last loan closed in 1979, and Iraq was only previously cleared for borrowing, as it had been on the ‘no-loan’ list since then. Just over a month after the US invasion of Iraq in 2003, On April 29<sup>th</sup>, and in line with Development Committee discussions at the monthly World Bank/IMF Spring Meetings, the Executive Directors of the World Bank met and gave full authority to Bank management to determine when the time is appropriate to send a mission to Iraq for a field-based needs assessment (World Bank, 2008b). The UN Security Council Resolution 1511 from October 16, 2003 calls on “member states and international financial institutions to strengthen their efforts to assist the people of Iraq in the reconstruction and development of their economy, and *urges* those institutions to take immediate steps to provide their full range of loans and other financial assistance to Iraq” (United Nations Security Council, 2003). Donor’s then pledged \$32 billion at a World Bank conference later in October 2003 for the International Reconstruction Fund Facility for Iraq (IRFFI), including two trust funds: a Bank-administered Iraq Trust Fund, and a United Nations Iraq Trust Fund.

On July 18<sup>th</sup>, 2005, the World Bank made its first loan to Iraq in three decades. It announced at a meeting of international donors that it would make up to \$500 million in soft loans (through IDA) over the next two years to finance development projects in priority sectors. The lending package was to scale up activities in sectors showing significant progress under operations by the Iraq Trust Fund (ITF). This lending package is the first to be extended by the World Bank to Iraq since 1973, following which its strong economic performance and increase in income per capita enabled it to ‘graduate’



from the Bank (World Bank, 2008c). In November 2005, the World Bank itself approved its first project in Iraq in 30 years of \$100 million for a Third Emergency Education Project to lay the groundwork for reform. The transition to a joint US/UN/World Bank partnership thus breathed some apparent legitimacy into ‘reconstruction’, yet under the total control of, and benefit to, the US capitalist class. In a News Release announcing the World Bank Iraq Trust Fund provision of \$6.6 million for a household survey and poverty reduction strategy (the first since 1993 ironically), it stated that under the IRFFI umbrella the World bank ITF has “financed thirteen projects amounting to nearly \$400 million to improve education, health, irrigation, and drainage, social protection, telecommunications, urban infrastructure, and water supply and sanitation. The IDA has also approved \$235 million in International Development Association credits for education and road rehabilitation” (World Bank, 2006\_ News Release).

Reconstruction contracts from the Bank are central to the continued presence of the United States in Iraq as well as a way to make back some of its war spending. In December, 2003 the IFC announced its first investment to establish an Iraq Small Business Finance Facility of up to \$200 million (O’Keefe, 2004) to help financial institutions “to develop capacity for micro and small business financing” (ibid.) for private sector investment. In mid-March, 2004 the IFC was planning to support foreign private investment into various sectors by June of that year with \$200 million, according to Assaad Jabre, Vice-President of Operations, saying that “we are open to investing in any sectors of the economy in Iraq, provided they are viable projects...at this point of time Iraq has huge investment potential” (D’mello, 2004). With US corporations working on contracts in Iraq (closely tied to the White House), the US realizes that it must at least

provide the illusion of broad international consensus for its actions. So, ‘international’ aid to Iraq obscures the fact that the country is under US control. Any aid filtered through the World Bank and other agencies must fit their ultimate objectives of securing both infrastructure and security apparatuses for the efficient production of the country’s massive oil reserves. One must assume that whatever progress is being made for these interests is align with ‘aid’ spending and results.

The US says the “War on Terror” is about spreading ‘good governance’ and ‘democracy’, but in reality the neoliberal strategy reinforces the “economic necessity for the United States to control international markets and valuable natural resources, such as petroleum” (Marable, 2007). In late May 2004, George W. Bush signed Executive Order 13303, giving American oil contractors in Iraq a lifetime exemption from lawsuits (Chaterjee, 2004: 179). In order to US corporations to remain front and central while the World Bank began implementing structural adjustment, the elimination of government regulation was mainly ensured pre-invasion – the advantage of military intervention was a pre-text for ‘international’ reconstruction but conducted under a ‘re-moralization’ of the pursuit of wealth behind the façade of reducing poverty. A refinement of old-style imperialism; “by the use of the world ‘democracy’ to conceal the exploitation invited by ‘free market’ policies...mastering the art of economic coercion” (Miller, para 10, no date). But indeed, there exists a moral hazard in the exercise of development for private benefit.

If US direct ‘aid’ to Iraq is any indication of wider World Bank initiatives, the situation is entirely grim. US corporations continue to make huge profits while the majority of the population lives in the worst conditions ever. On January 31<sup>st</sup>, 2007, CNN reported that massive waste and corruption of reconstruction aid has left Iraq far from

ready to manage without the US As convenient as that is, an audit by general inspector for Iraq reconstruction Stuart Bowen Jr. stated that the “State Department paid \$43.8 million to contractor DynCorp International for the residential camp for police training personnel outside of Baghdad’s Adnan Palace grounds”, including VIP trailers and an Olympic swimming pool that remain empty (CNN, 2007). The audit also revealed that 34 per cent of ‘aid’ from the US was spent on security and ‘justice’, while 4 per cent was spent on health care. Although Bechtel has built massive infrastructure such as power stations, dredged rivers, roads and bridges and “restored water systems” with development aid funds, (Juhasz, 2006: 235), a UN survey from May 2004 found that 80 percent of families in rural areas use unsafe water having been cut off from adequate drinking and sanitation, are getting water from the Tigris River – now heavily polluted from the diversion of raw sewage and lack of treatment and distribution (ibid., pg.234). In stark contrast, Chevron earned over \$14 billion in 2005, while Bechtel’s revenue increased from \$11.6 billion in 2002 to \$17.4 billion 2004 (ibid., pg.7).

The UNDP states that “in poor countries emerging from civil conflict, aid financing can help create the conditions for peace and human development. In Afghanistan, for example, it states “donor financing has been a critical ingredient for success, financing more than 90% of social sector budgets” (UNDP, 2005: 82). But in Afghanistan, poverty soared post-invasion (Lendman, 2007), creating the ‘necessity’ for aid. Only one fourth of the population currently has access to safe drinking water and sanitation. In Iraq, priorities are clear, as occupation officials reassigned \$184 million for drinking-water to fund operations of the new US Embassy (Chaterjee, 2004: 11). Considering the evolution from a unilateral invasion, occupation, and puppet government

installation in Iraq to such an ‘international effort’, one must remember the central dominance of US interests and the recent building of permanent US military bases in Iraq (Press TV, 2007), not to mention the money pit that Iraq has become for both military and ‘development’ contractors.

Before the first Gulf War sanctions on Iraq, the country was a model for other Middle East nations. The World Health Organization reported that before 1991, 90 per cent of Iraqi’s had access to safe public water and sanitation, both of which suffered greatly after this point (Baker, 2003). As of July, 2007 nearly half of the population of Iraq was living in absolute poverty (Aljazeera, 2007). The numbers do not even account for the over 1 million who have been killed already, or the over 2 million who have fled their homes from war and are now refugees in neighboring countries. So, it is more accurate to base those statistics on the number of people still alive or living there. A report compiled by OXFAM and the NGO Co-ordination Committee in Iraq (NCCI), found that: 1) only 60 per cent of the four million people who depend on food assistance have access to rations, down from 96 per cent in 2004, 2) the number of Iraqis without access to adequate water supplies has risen from 50 per cent to 70 per cent since 2003, 3) 80 per cent of people do not have safe access to adequate sanitation, and 4) child malnutrition rates have risen from 19 per cent before the US invasion in 2003 to 28 per cent in 2007 (ibid.). The MENA region has a growing number of young adults, providing massive potential for sources of cheap labour at the behest of US FDI and corporate fortitude in its new territory with the help and legitimacy of the World Bank. Of course Said Arikat, a spokesman for the UN mission in Iraq, assured that the “government of Iraq is definitely the authority in Iraq and it bears responsibility for the welfare of its people” (ibid.). This is

the typical rhetoric that has turned ‘partnership’ and ‘participation’ into a privatized war of imperialism – long in the making and cleverly executed under the auspice of the World Bank and United Nations operations.

In those countries like Iraq where the United States has launched another imperial war, we see the WB moving away from providing considerable loans and development aid to the very poorest of countries. The reasoning here for the Bank is that these countries are far less able to provide extensive returns on investments of aid, as they inevitably fall deeper into debt. We also see a move away from programs funded by the World Bank that include social and direct measures seemingly aimed at reducing poverty. Although the World Bank rushed to fund “emergency education” projects, one must question the political motives from donor states behind the kind of curriculum introduced in this haste almost immediately following the invasion, and planned well before it. The switch from bilateral to multilateral aid in Iraq is of significant note as the US attempts to re-legitimize its hegemony through the careful veil of reconstruction, development aid and poverty reduction through international institutions which it effectively controls. Joint World Bank loans and US imperial interests have both led to destabilizing debt and conditions requiring the slashing of social services and building of massive industrial and technological infrastructure for American corporations to exploit natural resources and people further. Nobody speaks however, to the over \$20 billion of Iraqi money entrusted to the Coalition Provisional Authority (CPA) that has all but disappeared – largely unaccounted for. And now, Iraq is essentially refinancing its own ‘reconstruction’ and eventual debt by loaning from the US and other donors through the World Bank via the IRFFI and respective Iraq Trust Funds under the auspices of the World Bank and UN. The

deconstruction and reconstruction of a political economy in Iraq has been evident through stark evidence of the most blatant privatized war of imperialism in history. Therefore, any likelihood of the IRFFI reducing poverty under the auspices of the World Bank Iraq Trust Fund, or anything else for that matter is entirely trifling.

It has become clear that although the elaborate evolution of aid and debt cycles point to an overall increase in poverty, faith in the ability of aid to stimulate growth to reach the MDGs is paramount, hence the need for more. The balance of literature and quantitative analysis of data to complement qualitative contextual analyses of development assistance programs above, has been laid out under clear structural parameters – recognizing specific patterns of imperial expansion and exploitation for capital consolidation. The constant renaming, reframing and repackaging of loans do create a veneer of honest bewilderment at its ‘failure’, insisting that this failure is the product of internal incapacities and corruption. To this, development aid experts insist on a solution for even more aid, while being careful to quietly buttress the so-called ‘international’, institutions, agreements, and regulatory frameworks that enable the US to consolidate further capital repatriation from infrastructural development, debt and investment returns from ownership of the means of production. Arrogance is the reflection of occupying a space that is not ones to occupy. Such is the pro-imperial ideology expressed in early US foreign policy, including doctrine and motives for ‘donating’ aid for development loans and economic reforms to fight poverty.

The predictable position of weakened national governments reflects a narrowed capacity to address the effects of economic reforms, including the lowering of labour and environmental standards to attract foreign investment in industrial production – those

which are not accounted for in the equation of ‘economic growth’ as a catalyst for poverty reduction. Thus Marx’s theory of the relations of advanced capitalism society is also a theory of why those relations are not readily visible to most. Classical economists contend that profit comes at the point of exchange in the marketplace. In other words, the capitalist produces a commodity at a certain cost and sells it at a price in excess of that cost. The difference constitutes the profit. At the turn of the century, a picture of recent trends and prospects for ‘fighting poverty’ in developing countries depicted “stalled progress...and rising numbers of poor people in most developing countries” (World Bank, 2000b). The internationalization of unipolar macro-economic trade policies transforms developing countries into open economic territories and national economies into ‘reserves’ of cheap labour and natural resources. Under NAFTA (North American Free Trade Agreement), western based multinational corporations are able to reduce their labour costs “by more than 80%” (Chossudovsky, 1999: 83), by relocating to Mexico where labour costs are low and where environmental standards are even lower. Clearly, economies in ruin are of little consequence to the Bank, and to those in which it operates, where ‘growth’ and ‘opportunity’ amount to little more than public relations tools to legitimize its work on behalf of US imperialism.

Despite an elaborate evolution of poverty and debt promulgated by ‘development aid’ through the World Bank, the role of national government control over domestic affairs under structural adjustment is stripped as the economy is forced into a global capitalist market controlled by powerful national interests. The myth of the ‘free’ market is exactly that, yet it is fervently defended as a self-moving force for good. But of course this is not the case. ‘Debt relief’ only leads to new debt – what one could conclude as the

objective of aid in the first place, considering how consistently it produces towards these results. Debt relief, therefore, is more a safety valve for ensuring investment returns than anything else.

Finance-gap economists argue there is no 'incentive' for recipient countries to invest in poverty reduction because it means they will not get more aid, basing claims on a false supposition that structural reforms happen after loans are disbursed, or not at all. Blaming the recipient country for a failure to effectively implement aid for poverty reduction, is often coupled with an argument that reforms are not made as an incentive to receive more aid. This misses the fact that reform is a pre-condition to aid, and not something that may follow – depending on the whim of the recipient government. Rather, in all cases of debt 'relief' or refinancing, however, it is actually a precondition for such capital investments. Why on earth would loan recipient countries want more debt? Thus logic escapes common sense and historical fact.

In the absence of critiques of 'aid' that supposes it is successful in its intended form, international financial institutions such as The World Bank Group remain in the business of regulation and global 'connectedness' on behalf of powerful nation states – specifically the imperial powerhouse of the US – and the multilateral aid agencies to which it lends work together in concert with primarily American corporations in the national interest. So again, it is illogical to assume that the global economy is regulated and controlled by a group of stateless, floating corporations with control over the apparatus of government in their home countries. In the same deceptive vein, increased recipient 'ownership' of adjustment aid and participation in development helps the Bank and its official financiers to blame developing countries with inefficient or slow



implementation of adjustment that they say explains its ‘failure’. Answers to the question of how to make aid more effective are answered in one way: provide more of it. This continued rhetoric suggests a faulty syllogism, since the current need for more aid is based on the inability of aid to reduce poverty. Yet extremely strong incentives exist for lending to continue on the part of the donors.

Continued insistences for the reforming of aid are central, as they purport that aid is not working for reasons other than what the evidence suggests. Aid is failing to reduce poverty, but given the structural characteristics of the US economic Empire, more or reformed aid will certainly only reproduce the same tendencies for capital accumulation, concentration and increasing poverty for those countries subject to loans which have resulted in crippling debt and further loans to pay interest on debts already incurred. In the mean time, inequality worsens and living conditions continue to deteriorate in real and absolute terms. Development and ‘assistance’ itself has often led to increases in poverty, inequality and dependence on the controlled global economy through the aid-debt-reverse aid project, and through the control and overuse of natural resources – those on which ‘development’ solely depends – and from which record profits have been made.

As discussed in Chapter III, capitalism has an economic imperative to expand and consolidate at the international level. The creation of an American Empire through the direct application of national interest to the construction of International Financial Institutions has provided the ‘internationally legitimate’ machinery needed to ensure profitable investment. From a historical understanding of the political and economic conditions relevant to the birth of these organizations as instruments of US foreign policy, the second chapter helped to provide some perspective of the Bank’s (and supporting

institutions) ideology and policies that supposedly reduce poverty through growth – eventually anyway. But as exposed in previous chapters, the World Bank seemingly holds two opposing objectives: to secure profitable private investment opportunities for shareholders and to eradicate poverty.

Imperialism tends to significantly alter local structures of governance everywhere. There are no exceptions or alternatives – it is a self protective and resilient system based in its necessary place in the evolution of global capitalist expansion. Imperialist trade practices operational through International Organizations are “associated with increased levels of social polarization and fragmentation” (Vilas, 2002: 73). For example, Vilas (2002) states that in the mid-1990s households in the top 10 per cent of the income pyramid of Latin America and the Caribbean concentrated almost 40 per cent of total income. At the same time, the poorest 40 per cent collected less than 12 per cent of the average national income and the poorest 10 per cent barely 1.4 per cent (in Brazil 0.8 per cent and in Guatemala 0.6 per cent) (World Bank, 2000b). This tendency of disparity and growing inequality extends itself to including the domestic economy in the imperialist centre, which will be discussed in the next chapter.

Unlike Imperialism, the concept of power is value dependent, in that its definition and use are linked to a set of value assumptions which predetermine the range of its empirical application. Constrained by these limitations, conceptual and operational issues explaining the political and economic structure of imperialism as it relates to the specific political strategies and economic necessities of capital export for development aid, provides a much sounder foundation for analysis. Through this distinction, a creative addition to existing evidence for continued manipulation and exploitation of the poor by

the World Bank, in service to a monopolized American economic power. The presumed ‘neutrality’ of World Bank policy exercised through aid has created a faulty syllogism in ‘development’, and in what the objective (and necessity) of ‘free trade’ and ‘aid’ truly are determined under evident observable conditions of capitalist expansion. An interesting methodological challenge for this exercise is to investigate US control through the process of multilateral aid as delivered through various World Bank Group agencies.

Where it is more obvious to locate the mechanisms of imperial control through direct bilateral aid from country to country, an investigation of multilateral aid and the intentional application of the international loan system can offer a challenging exercise for indicating the goals and priorities of US foreign economic policy employed through ‘development’. The next chapter will look at some of the more cloaked connections, relationships and institutional mechanisms that in fact exist to ensure US corporate and political benefits from the investment of finance capital through both aid loans and subsequent FDI. A discussion of ‘reverse aid’ in the repatriation of capital from the South to the North will occupy significant space within a structural approach to an institutional analysis of the World Bank as an agent of US economic imperialism. It will conclude by reviewing the perceptible success of World Bank development aid in its intended objectives, those which it will only further realize through increased loaning for ‘poverty reduction’.

## Chapter V:

# The World Bank as an Agent of US Imperialism

The World Bank identifies institutional analysis as a tool using “qualitative methods to unpack the ‘black box’ of decision-making and implementation processes” (World Bank, 2004c) of policy and programming. Using this analytical approach, one can review results of structural reforms in aid recipient countries over time, including the decentralization of public services and land reforms to liberalize the economy for growth and ‘development’. The identification of characteristics and dynamic relationships (such as debt and capital repatriation to donor countries and corporations) leads to a better understanding of the formal and informal ‘rules of the game’ that govern actual behavior over time, and within highly orchestrated networks of decision-making. In an institutional analysis, the subjects are organizations and institutional rules playing out at the level of the state, the market, community and individual. A look at the administrative structure of the World Bank is also a critical method for identifying power structures, as well what the World Bank refers to as ‘batch-mates’, comprising of connections or “networks that shape people’s ability to expect support from each other” like membership to specific organizations or having graduated from the same university (World Bank, 2004c: 2). For our purposes here, US imperial interests leading to the design and development of the World Bank must be identified to produce sound judgment of key institutional players’ affects on project outcomes from their conception to their implementation. Incorporating attribute data into an institutional analysis means showing the attitudes, opinions and behavior of agents,

insofar as these are regarded as the properties, qualities or characteristics which belong to them as individuals or groups.

Following from the historical progression of the Bretton Woods system after World War II, the key role of the American state will be supplemented in this chapter with discussions on American foreign aid doctrine and motives, American dominance through representation at the World Bank Group, a review of tied aid and resultant debt dependency as a key way by which the US employs the World Bank and other international organizations in its service, 'reverse aid' and repatriation of debt, the impossibility of aid providing both profits and increased poverty reduction as an inherent characteristic of imperialism, as well as a discussion on the 'success' of World Bank development aid in its intended, and observed, objectives. In the discussion of American foreign aid doctrine and motive, existing literature will be supplemented by an attempt to propose a stronger theory of economic rationale behind American inspired development planning exercised through the World Bank within the context of the expanding global capitalist system of American Empire. We will revisit the question of how aid is working, not whether or not it is. It will be argued that from available data and theory, development aid from the World Bank may not be working to reduce poverty, but it is working towards its real goal of consolidating the global economic apparatus for the American Empire, providing lasting opportunities and profits.

Development has always been a precarious and ambiguous concept. We move into the 21<sup>st</sup> century where there exist huge challenges to humanity from conditions we have created. It is becoming more pressing to seek answers to the question of mechanisms of economic control and influence over international institutions entrusted with the virtue of

poverty fighting, where development and ‘assistance’ itself has often led to increases in poverty and dependence on the scripted global economy. There is the question of whether any policy aimed at reducing poverty within a global capitalist economy would even be able to do so. This would be against the basic principles of capitalism, one of which is the necessity to constantly expand and consolidate. The market is a reflection of imperial state led development and not a reflection of a reduction of power in the imperial state. Rather, it signals a reduction of control in the government of those countries participating in some form of economic adjustment program.

Despite any favourable aggregate clues of increased Gross National Product and other conflated indicators, this thesis aims at securing an argument (through the movement of aid and profits) that in fact, the World Bank continues to follow economic growth models as a matter of design, and not based on any decades long imperative to ensure a “trickle down” effect of wealth and equality. Liberal reformism, especially from within the Bank intelligentsia itself, orient their redistributive models towards freedom from constraint, where a so-called equality of opportunity is supposed to secure some advantage beyond inequalities of condition. Removing barriers to movement within the existing system is allowed, but any allusion to structural change is not entertained. Although trade is heralded as the magic engine of growth and advantage for everyone, liberal and neoliberal theory is based on order, not change. Apologists still encourage the same wage labour which draws workers into an international system of exploitation through export led production to a market that is designed to accomplish the opposite of what aid recipient countries are led to believe.

We can see distinctly similar patterns of development emerging over past decades through an analysis of both theoretical dimensions and practical applications of aid. A structural analytical framework of an institution is not the same as data collection techniques but is connected to theory on imperialism. The focus will rest on a critical and comparative historical content study of both structural and strategic variables surrounding development aid within an American driven global system of exploitation, and premised on the export of capital into profitable international loan structures. It is of central interest to look at both the political and economic aspects of imperialism to affirm the orientation to the political economy of these workings of development. For that reason, the relationship between the economy, the state and World Bank development aid will be explored as it specifically relates to the effects that imperialism, disguised as ‘globalization’ and ‘development’ has had on the poor through development aid administered through the World Bank Group.

Following from evidence for the argument that the policies of the World Bank do not reduce poverty, it should logically follow that the World Bank is in the service of the United States defined global economy by looking at results that lay outside those of poverty reduction. It is one thing to impart that the development policies of the World Bank simply are not materialized inside its stated mandate of poverty reduction for the vast majority of the world’s poor. It is an entirely different matter to suggest that its unstated function, that is as an agent of economic imperialism for the United States, is a more accurate reflection of what the “War on Poverty” has managed to accomplish. Although by its own admission, the Bank has failed to produce the results it has supposedly worked so tirelessly towards for more than 60 years. The following sections

provide a lens from which to investigate American primacy throughout the structure and strategies of the World Bank. Solving the problem of ‘failure’ is possible in revealing a strong consistency between the structural evolution of economic imperialism, and the process of development aid to fight poverty through the World Bank.

The economic motives driving aid, as well as how they are strategically employed to consolidate hegemony over the rules of trade and international engagement are important to review to some extent. To illuminate the political motives for economic policies is essential, insofar as they identify the way advanced capitalism operates at the global level in the 21<sup>st</sup> Century. Most interesting, is that after 50 years of development supposedly aimed at poverty reduction, we see skyrocketing profits made by the corporations of imperial states, resulting from skewed international trade, foreign direct investment into extractive industries for export, interest payments on debt, and the ‘refinancing’ of existing debts to obtain new loans – sometimes referred to as ‘debt relief’. Arguments in favour of development aid on part of the donor countries often evoke a basis in some national-interest, although these are rarely published or discussed. This has a tendency to abstract, in some way that can obscure structural elements, the historical workings of the growth of imperialism as it is rooted in the global capitalist economy, although it is effective. In Chapter IV, a look at the process of capital export from donors for development aid through the World Bank was creating increased instability, poverty, exclusion and inequality between and within developing countries. ‘Growth’ – when it does happen – occurs only when computing export revenues and profits on privatized services or utilities. In no way should this be indicative of decreasing levels of poverty.



Explicitly stated benefits to the United States from its relationship with the World Bank as listed on the Bank's website are clear. They include a commitment to American values, a source of jobs for US citizens, national security – which is a motivator for providing aid and to protect other interests, US leadership, export revenues, investment opportunities, procurement opportunities, and reliable consumers (World Bank, 2008e). In the following sections, a closer look into the last four will provide supplementary validation that rather than reducing poverty (its stated objective for which it fails to accomplish), the World Bank succeeds brilliantly at guaranteeing export revenues (from capital export and resulting South-North capital flows), and investment opportunities (as expressed in earlier chapters) through high concentrations of FDI flows to resource extraction industry sectors. These commitments to US interests are directly opposed to reducing poverty, such as in Iraq, where World Bank procurement for contracts have gone to US corporations with a clear political agenda.

To the extent that what occurs in the economy reflects and affects social power relations, International Political Economy concerns “the social, political and economic arrangements affecting the global systems of production, exchange and distribution, and the mix of values reflected therein (Strange, 1988: 18). The distinctiveness of political economy offers students of the real world, certain attractions that are notably absent in mainstream economics and system's approaches. Political economy is used in this thesis as a means for understanding more structural elements of contemporary capitalism and for engaging in a dialogue with other social sciences including the study of ‘development’ as it were, and can show empirical realities and methodologies that are not reducible to statistical data and mathematical modeling (Fine, 2002: 197). This observance has in

previous chapters, revealed some of the more significantly institutional and programmatic modes through which capital is exported to the developing world in the interests of powerful states. To be sure, the US cares less whether a government is democratic or not, it cares much for whether its economy is open or closed, however.

All schools of thought retain, through their evolution, central assumptions, concepts and propositions that form the basis of a critical and multifaceted evaluation. Petras (1978) explains that taking a structural approach to international political economy advances the discussion beyond the stricture or concealment of dominant international development theory and practice. “One is no longer forced to choose between reified concepts of national interests or to pretend that states are no longer important actors in world politics. Structuralism makes it analytically possible to speak of the state and the differing interests within the state” (pg.30). Petras criticizes the structuralist approach to political economy by charging that the approach to the problem of capitalist development is seen at the level of patterns of distribution “without inquiring whether these unequal exchanges in question might be a product of the capitalist mode of production and the peculiar and specific organization of the market that it entails” (pg.31). To correct this gap in some way, the problematic in this investigation has been analyzed observing (structurally determined as well as strategic) exploitation, not simply that of inequality, power and dominance.

Construct validity demonstrates empirically that an operational definition of a concept matches its conceptual definition. It involves showing that measurements are correlated in ways that are expected, given the conceptual definition. In the case of aid and based on the same idea as ‘reverse aid’, we are concerned with a kind of reverse

construct validity here evident in a faulty syllogism, or the extent to which the conceptual definition of aid as stated is inconsistent with (and falsified by) the historically necessary structure of global and monopolized capitalist accumulation and economic imperialism. A historical comparative approach reveals how processes work similarly over time and in different countries, disguised as ‘poverty reduction’. Whereas a theory of economic imperialism will guide analysis, the concepts to link this theoretical framework to the methodology of an institutional analysis of the World Bank (the most prominent development organization) will be seen as working in concert with the project for America’s Empire.

The function of the analytical structure of this exercise is to evaluate World Bank poverty reduction initiatives as exercised through US dominated global economic structures and policies. In any structural analysis of development aid, “questions about the motivations behind the giving of aid [and] the link between aid and political power” (Petras & Veltmeyer, 2002: 281) are compulsory. Employing a structural and historical analytical framework will help to model an argument based on both the structural and systemic (strategic) dimensions of aid (as well as state centered imperialism) that will allow this thesis to reach its objective of classifying policies and programs of ‘development’ as political strategies of economic control and exploitation. From receding evidence for the negative effects of World Bank development aid on recipient countries in the last chapter, it becomes clear that poverty will never be eradicated because that is not the intent of development aid to do so.

Marxists are not economic determinists because the starting point is the anatomy of the class structure that governs social and productive relations. While the basis for

exploitation on a global scale lies in the search for profit by the ruling classes of states, their economic and financial gains lie at the root of the constant chase for profits. Whereas earlier powers expected colonies to specialize production of primary commodities for export, essentially nothing has changed under structural adjustment programs and development assistance; the sheer levels of money transferred back and forth are colossal. It appears the Bretton Woods institutions to regulate the global economy came just in time for 'independence'.

Imperialism is not a social construction. A structurally based reading of the economic and political elements describes and explains relations and conditions that are real and objective in their effects, and thus arise from the working of structures that underlie visible social relations, apparent only in their effects (Petras, 1978). Imperialism as an operative noun then, has both conceptual and empirical referents. Conventional Marxist analysis would agree that structurally-based social contradictions are specific to capitalism. The evolution of theoretical perspectives that have emerged from an analysis of central literature on aid has been ardent. Petras and Veltmeyer (2002) employ a realist perspective that finds 'foreign loans and grants are a catalyst of 'reverse aid' – designed to benefit the donor countries" (p.283). Tony Smith (2003) affirms that "once money is introduced explicitly, and attempt to comprehend generalized commodity production as a system designed to meet human needs must be abandoned" (pg.25), and that any satisfaction of human needs only occurs insofar as it is compatible with this dictate. In that the logic of surplus appropriation relies on a return on investment, "the capitalist mode of production is a system in which the sum total of money accumulated at the

conclusion of a given period [which some refer to as savings] exceeds that invested at the beginning of that period” (Smith, 2003: 25).

### **American Foreign aid Doctrine and Motives**

Arguments in literature pertaining to motives for aid range from national security and strategic objectives to moral or humanitarian imperatives, national security objectives, and economic and political containment. But the motives for aid, from the perspective of those in favour of it, rarely express its economic benefits or directives. “Aid is also seen as a means of promoting political and strategic objectives” (Haytor & Watson, 1984: 238). To extrapolate what factors influence donor motives for loaning, pathways of program delivery, as well as variables and trends revealing capitalist efficiency, it has been prudent to draft a broad historical trajectory incorporating a political economy perspective where “one must think how countervailing interests could forge a sufficiently powerful coalition and longer-term capacity to regulate new economic and social institutions” (Standing, 2000: 743). According to Mason, however, “it does not follow that because the interests of the aid-giving countries are served, the interests of the aid-receiving countries are thereby denied” (Mason, 1964: 3), a perspective highly out of sync with both motives for, and effects of, aid.

One could say that the most central motive for foreign aid, however, is the building of both political and physical infrastructure intended for profitable returns from lending, and in the case of grants, profits from investment and trade. Careful in his choice of words to this point in a rare testimony to the economic motives for aid, Schelling states that “as soon as we [United States] insist that a country welcome private foreign capital we are not only protecting against the abuse of our aid, we can be accused of attempting

to force our own private-enterprise ideology on the country concerned. Here is a ‘string’ that is natural and logical and, in the words of the CED (Committee for Economic Development) witness, ‘wholly related to the economic aspect of the aid program’, yet it can be construed as interference” (Schelling, 1964:150). This is true for both bilateral and multilateral aid. For Schelling, “an aversion to ‘strings’ and conditions faces a dilemma. The ‘purely economic’ conditions that would seem not only appropriate but essential, from the point of view of the country extending aid, may be construed by the recipient as intervention or, at least, as subject to abuse. Awareness of this problem should forestall any hasty confidence that we need only avoid ‘improper strings’ in order to make the problem disappear altogether” (Schelling, 1964: 151).

Still there is the very central question of deciphering the historical and political landscape that informs economic and other related motives behind the use of aid, such as those that define aid as a principle conduit for American foreign policy (Frankel, 1970; Banfield, 1963; Mason, 1964; Moore Lappe, Schurman & Danaher 1987; Ranis, 1964 & Black, 1968) and following from that, principles specific to the concept of national interest (Frankel, 1970 & Moore Lappe, Schurman & Danaher 1987), which has been a potent ideology within intellectual constructions of unashamed justification for imperialism. In the context of American hegemony over the global terms of trade, “aid to developing countries is conducted in the interests of both national security those related to indirect financial influence which is meant to set off or bring about “fundamental changes in the outlook and institutions of the recipient societies” (Banfield, 1963: 4). Taking a closer look at the literature attributing the strategies and objectives of American aid to economic purposes, Milton Friedman (1964) correlates the giving of aid to containment of

countries who will develop economically anyway, with or without the help of the United States. The rationale here is that if the United States does not offer aid, then they will be encouraged to refuse the opening up of their economies to foreign direct investment and ‘development’ from the West, and perhaps choosing a path less favourable to its strategic interests.

Doctrines and motives of foreign aid for development may be grounded in moral purposes like altruism and shared identity within a ‘world community’, or variations on the theme of Rudyard Kipling’s 1899 poem *The White Man’s Burden*, although this is rarely the case when examining the effects of aid within developing countries. Although they are not essential elements of the central doctrine of aid for the purposes of national security, moral imperatives remain important justifications of imperial expansion, even if predicated on some paternal responsibility or duty. In January of 1949 at the beginning of the Cold War, President Harry S. Truman declared that “we must embark on a new program for making the benefits of our scientific advances with industrial progress available for the improvement and growth of the underdeveloped areas” (Seabrook, 2003: 61). From early on then, ‘development’ could be seen as a strategy devised in the West, whatever rhetoric is attached to its purpose.

It should be clarified that what is distinctively at issue here are doctrines of aid, rather than programs and policies discussed earlier. The significance of this for the purposes of investigating the World Bank poverty reduction programs in relation to state imperialism, is precisely because “foreign aid programs and practices may, of course, be very different from what the doctrines attempt to justify” (Banfield, 1963: 3). The power of the United States over the global financial markets and trade agreements, in this regard,

can help to illustrate why in the later chapters of *A Proposal*, Millikan & Rostow (1957) refer to the purpose of aid as “economic development” and “make recommendations that are all directed toward purely economic goals” (Banfield, 1963: 6) that can arguably be seen as inconsistent with the supporting goals of altering more static social and political structures inherent to imperialism and aid. What Millikan & Rostow fail to do in this appraisal, and what Banfield himself neglects to elucidate, is the reliance on the political, and state system that the satisfaction of the economic motives depend. Nevertheless, a major economic motivation for aid and method for its transference to developing countries is capital export (Chossudovsky, 1999) which becomes a motive as well as a method and objective of development. Capital export embodies the economic motivation of imperial policy and not necessarily political doctrines of foreign aid, although they are clearly not isolated from each other in their application through institutions like the World Bank.

In that development and policies of economic growth are often presented in a way that infers poverty reduction, they can be seen as actually contraindicative to doctrines and motivations of aid. This is especially the case when so called “indirect influence” through aid, by the admission of US policy makers “may not raise levels of living” (Banfield, 1963: 6) at all. Despite stated goals of poverty reduction, the World Bank, aid, and development for poverty reduction have created false oppositions to global capitalism while strengthening state imperialism. At the 2005 United Nations Summit dedicated to the global eradication of poverty, US President George W. Bush affirmed his commitment to expanded international trade policies as the solution to reducing global poverty. Nowhere here did he mention that these specific economic policies for free trade had



anything to do with the history of using the World Bank as the preferred international economic tool of US Presidents for decades (Juhasz, 2006), safe under the deception of fighting poverty. Under the National Security Strategy, a list of policies that the administration will advance with other countries to loosen government regulations in an article with the name “Ignite a New Era of Global Economic Growth Through Free Markets and Free Trade”, and include “legal and regulatory policies” (p.47) to strengthen US direction over international trade agreements and institutions like the GATT and WTO. Notwithstanding policies and rhetoric for aid and development on humanitarian grounds for the reduction of poverty, US strategic political doctrine and structural (and strategic) economic motives for aid are central to national security and also for the promulgation of the system of capital.

In moral and humanitarian rationales for aid which are not consistent with present realities, Banfield states the obvious when he says “some countries, after suffering the agonies of change, may arrive at a condition on the whole worse than the one they left. Aid can be justified on humanitarian grounds only as it actually makes people better off; if it makes them worse off, the good intentions that motivated it are beside the point” (1963, pg.39). Yet he also says that “to bring friendly countries into a condition of ‘total dependency’ ...would require vast amounts of aid” (Banfield, 1963: 30). World Bank President Eugene Black confers, in that “by sacrificing our present political advantage to promote long-term economic development we will serve our own *real* political interests” (Banfield, 1963: 52).

Hans J. Morgenthau emphasized what he referred to as ‘moral force’ when he says in *The Purpose of American Politics* (1960) that “this plausibility of the American

purpose, established in the eyes of the world by deeds, must again become the foundation upon which, supported by the modern techniques of propaganda and foreign aid, the world-wide influence of America must rest” (pg.28). It is worth note here that Morgenthau places the propaganda accompanying aid as more significant than the aid itself. He follows that if favourable impacts can be insured by spending more on propaganda and less on deeds, we ought to make the change (ibid.). Such an elitist notion is to be expected, because the poor do not politically exist for Banfield (1963) in the consideration of benefits from aid, “those who *do* make a difference are...above all, the small group which rules” (pg.28). Where the poor will see aid as selfishly motivated, and where nationalism is strong, “these considerations suggest that if aid is to have political effect, it must work upon the educated class” (Banfield, 1963: 29).

Among those writers proud of the necessary leadership role of the United States are those compromising of ‘Ethical Imperialists’, ‘Global Salvationists’ and imperial ‘realists’ such as James Baker and others frequenting the halls of Washington. Nowhere near ‘anti-empire’, historian Arthur Schlesinger recently written that “the imperial dream has encountered consistent indifference and recurrent resistance through American history” (Schlesinger, 2004: 65). Other proud pundits include Michael Ignatieff, who deemed American Imperialism as necessary, and senior British diplomat Robert Cooper who sees ‘voluntary’ imperialism as that exercised through the World Bank and IMF. These perceptions seem to connect imperialism with human rights and moral duty. Advocates of the current Bush administration agenda have not only decided that American is an empire, but that it should be embraced, expanded, and defended using any means necessary. Where American can “outspend and outmuscle any competing

faction...US imperialism has been the greatest force for good in the world during the past century” (Boot, 2003: 1). Typical of this semblance is an article written in 2003 by prominent conservative Robert D. Kaplan who called for a Warrior Politics. He says that “it is time to move beyond a statement of the obvious. So how should we operate on a tactical level to manage the unruly world? What are the rules and what are the tools?” (pg.65). He then goes on to list ten rules for governing the world. The United States here is seen as a lone superpower with imperial designs able to exert its control over less powerful countries – in other words, an Empire. Inequality is a non-issue to defenders of Smithian economics. The pursuit of excellence makes it inevitable, and they argue the pursuit of excellence benefits us all. So we are hostage to a paradox. Safe it to assume though, that imperialism discussed within this framework is viewed as a deliberate policy (Biel, 2000). And, since capitalism is fuelled by accumulation, the impoverishment of the vast majority of people is a necessary component of the production of this wealth.

When someone discusses the concept and nature of imperialism, we almost always assume that they have a negative perception of it. Today, even the capitalists and policy elite themselves embrace it as a necessity, as well as the mission for the United States to utilize its power in the national interest throughout the world. Especially after the advent of the US led ‘war on terror’, military aggression is successfully coupled with interventionist economic, political, and social policy that resembles what some call the “grand civilizing mission” of the American Empire (Foster, 2002 & Cox, 1964). These perspectives, insofar as they are effective in the policy planning arena, is that they increasingly drawn a link between human rights and the need for imperialism exercised by a ‘stable hegemon’ to ensure them.

Economic development is now fashioned “as a means for the containment of rebellion preferable to the use of military force” (Hayter & Watson, 1984: 239). Where military force everywhere would undermine the deceptive nature of aid further, direct and indirect economic force can ensure the appearance of benefit to recipient countries.

Writing in 1964 when around 80 per cent of American foreign aid was bilateral, Mason argued that the US could be more effective through multilateral institutions like the world bank because 1) political conditions may be that action by the United States is out of the question, 2) international organizations can better enforce changes in policies and practice through conditions attached to aid, and 3) the use the multilateral device can become an effective way of reducing the US share of the foreign aid burden (Mason, 1964: 23-24).

Through multilateral organizations with many member states acting as partners, American interests become the interests of all – but at a lower cost. His analysis of motives for aid rely mostly on those of security and national interest, always painting any economic variables as benevolent, or having the intention of helping those to whom aid is loaned. However, annual US contributions to World Bank capital are necessary for ensuring a return on investment from the Bank’s profits. Also, directly related to voting power, the US requires at least a 15% share in order to veto any major policy decision according to the ‘one dollar one vote’ system the World Bank operates from. Relating this quagmire to an institutional analysis to the World Bank and its failure to meet MDGs, argues that the evidence points to the Bank as behaving as an agent of economic imperialism exercised through the structural necessities of state capitalism.

### **American Dominance at the World Bank Group**

“The power of the imperial state is extended to the IFIs” (Petras, 2001a) who derive their power from the imperial state. The state “provides most of the funds, appoints the leaders of the IFIs and holds them accountable for implementing policies that favour the multi-national corporations of their respective countries” (Petras, 2001a).

The US is able to maintain its position through long-standing series of connections, memberships, and a ‘revolving door’ of membership throughout foundational Bank posts. Significant clues of American primacy at the World Bank will be substantiated with a short outline of presidents and their relationship to the political and economic foundation of America, the Chief Economist, as well as the membership of the US based Bretton Woods Committee, comprising a number of influential industry and government officials and intellectuals. “Where finance directors and brought into the management of industrial enterprises. At the same time, industrial monopolies have their representatives on the governing bodies of banks” (Lyontyev, 1972: 108). The same people are key players on both sides, and the combination of banking and industry capital for export, represented at the World Bank creates predictable effects.

G. William Domhoff (1978) observes that the planning for the IMF and IBRD between the years 1939 and 1942 was carried out by a group of members of the prominent US Council of Foreign Relations (CFR) (working under the auspices of the War and Peace Studies Project) and developed close ties with the State Department, “infusing the government with its view of the ‘national interest’ which envisioned an integrated world economy with the United States at its center” (pg.101). Many of these members went on to play prominent roles within these organizations. Subcommittees and study groups at the

Council on Foreign Relations “stressed the need for the United States to involve itself in the internal affairs of the most important industrial and raw-material-producing nations” (pg.107), the details for which would be worked out by the Treasury Department prior to the Bretton Woods Meetings (ibid.). To ensure American domination over the international economy, subsequent recommendations also suggested the creation of the United Nations. Isaiah Bowman, director of the CFR and head of the territorial subcommittee, explained at a CFR meeting in May, 1942 that the United States had to exercise the strength needed to “assure the “security” and at the same time “avoid conventional forms of imperialism”. He argued the way to achieve this was to make the exercise of that power international in character through a United Nations body” (Domhoff, 107). Moreover, in “it is hard to refute the view that the Washington-based financial institutions have been dominated by US economists”, in general (Standing, 2000: 751).

Views on the World Bank as an American venture typically point to the legacy of membership to the post of President of the World Bank. As discussed in Chapter I, The Bank president has always been an American. A history of membership includes:

- 1) **Eugene Meyer.** June to December 1946: Chairman, Board of Governors of the Federal Reserve from 1930-1933; owner of the Washington Post, Member, Council on Foreign Relations; agent of Lazard Freres, Brown Brothers, Harriman; appointed head of the War Finance Corporation during WWI by Woodrow Wilson.
- 2) **John J. McCloy.** March 1947 to April 1949: Member and chair of the Council on Foreign Relations; Chairman, Ford Foundation; Chairman, Chase Manhattan Bank; lawyer whose firm was council to Chase Manhattan Bank.

- 3) **Eugene Black.** July 1949 to December 1962: Chairman, Board of Directors for the Federal reserve System (1933-34); senior vice president of Chase Manhattan Bank; Member, Council of Foreign Relations; created the International Finance Corporation and the International Development Association at the World Bank.
- 4) **George Woods.** January 1963 to March 1968: Vice president of Harris, Forbes and Co.; vice president of Chase Bank; vice president and board member of First Boston Corp. (one of the largest US investment banking firms).
- 4) **Robert Strange McNamara.** April 1968 to June 1981: President and director of Ford Motor Company; Secretary of Defense in the Kennedy and Johnson administrations; member of Trilateral Commission and Council on Foreign Relations; honorary council trustee of Aspen Institute. Personally negotiated China's entrance into the World Bank.
- 5) **[Alden] W. Clausen.** July 1981 to June 1986: President, CEO and chairman of Bank of America; member, Trilateral Commission; member, Bretton Woods Committee.
- 6) **Barber B. Conable.** July 1986 to August 1991: Member of US House of Representatives from 1965 to 1985; member Trilateral Commission and Council on Foreign Relations; senior fellow, American Enterprise Institute; board member, New York Stock Exchange.
- 7) **Lewis T. Preston.** September 1991 to May 1995: President, CEO and chairman of J.P. Morgan & Co., and chairman of the executive committee, vice president of Morgan Guaranty Trust Co.; member and treasurer of Council on Foreign Relations; director of General Electric.
- 8) **James D. Wolfensohn.** June 1995 to [May] 2005: Executive partner and head of the investment banking department, Salomon Brothers (New York); executive deputy

chairman and managing director, Schroders Ltd. (London); director, Rockefeller Foundation; board member, Rockefeller University; honorary trustee, Brookings Institution; Director, Population Council (founded by John D. Rockefeller); member, Council on Foreign Relations.

9) **Paul Wolfowitz.** [June] 2005 [to May 2007]: Deputy Secretary of Defense (2001-2005); member, Trilateral Commission; member, Council on Foreign Relations; director of the neo-con flagship, Project for the New American Century (PNAC); member of the elite “Vulcans” group that advised George W. Bush on foreign policy during the 2000 presidential elections (Wood, 2006).

Seven of the above mentioned have major connections to prominent American banks with global interests, American think tanks and the US government. Often, associations and business networks are often overlapping, and all bases of US government, banking and industry are covered through the membership representation. The 11<sup>th</sup> president is currently **Robert Zoellick**, who briefly mentioned in Chapter I, is current undersecretary of state and former US Trade Representative (Juhasz, 2006: 269). He has faithfully carried on the American tradition of ensuring free trade throughout the world from within the administration. Prime planner of the Mid-East Free Trade Agreement (MEFTA), Zoellick is setting out the core provisions of the Bush National Security Strategy. As far back as 2000, in “Campaign 2000: A Republican Foreign Policy”, in *Foreign Affairs* he “emphasized the importance of the new century as a time to assert the primacy of the United States” (Juhasz, 2006: 270). With over a year under his belt as head of the Bank, Zoellick has effectively merged Bank and US objectives. At the initial Doha Trade Round



meetings, Zoellick began by saying “As much as developing countries may need debt relief and development aid, a prerequisite for their long-term economic growth is full participation with the global economy and trading system. Doha is the best opportunity we will have in the next ten to fifteen years to expedite this integration. It is an opportunity neither we nor the developing world can afford to miss” (Juhasz, 2006, pg.275). The World Bank and other US controlled international financial organizations and mechanisms are the arsenal of choice for the US, re-braiding American interests as the interests of all.

The position of World Bank Chief Economist, or ‘Senior Vice President, Development Economics, and Chief Economist’, is an advisor to the President and senior management team as well as playing a leadership role in driving the overall strategy of the Bank. From the Bank’s website, a listing provides the following chronological list:

- 1) **Hollis B. Chenery** (1972 - 1982) - Hollis B. Chenery first served as Economic Adviser to President McNamara from 1970 to 1972, and then was personally chosen by him to serve as Vice President for Development Policy. His pre-Bank experience was a Marshall Plan economist in Europe, assistant administrator at USAID, then professor of economics at Stanford and Harvard.
- 2) **Anne Krueger** (1982-1986) - Anne O. Krueger from 1982 to 1986, was the World Bank's Vice President for Economics and Research and has been the First Deputy Managing Director of the International Monetary Fund since September 1, 2001.
- 3) **Stanley Fischer** (1988 - 1990) - From January 1988 to August 1990 Stanley Fischer served as Vice President, Development Economics and Chief Economist at the World Bank. He served as First Deputy Managing Director of the International Monetary

Fund from September 1994 to August 2001 and as Special Adviser to the Managing Director from September 1, 2001 until January 31, 2002.

4) **Lawrence Summers** (1991 - 1993) - Mr. Summers took leave from Harvard in 1991 to return to Washington, this time as vice president of development economics and chief economist of the World Bank. In that position, he played a key role in designing strategies to assist developing countries, served on the bank's loan committee, and guided the bank's research, statistics, and external training programs. His research featured an influential report demonstrating the very high return on investing in educating girls in developing countries. In 1993, Mr. Summers was named as the nation's undersecretary of the treasury for international affairs.

5) **Michael Bruno** (1993 - 1996) - Michael Bruno was appointed Vice President, Development Economics and Chief Economist, replacing Lawrence Summers, who left the Bank in January 1993.

6) **Joseph E. Stiglitz** (1997-2000) - Joseph Stiglitz served as World Bank Senior Vice President and Chief Economist between February 1997 and February 2000. Joseph E. Stiglitz was born in Gary, Indiana in 1943. A graduate of Amherst College, he received his PHD from MIT in 1967, became a full professor at Yale in 1970, and in 1979 was awarded the John Bates Clark Award, given biennially by the American Economic Association to the economist under 40 who has made the most significant contribution to the field. He has taught at Princeton, Stanford, MIT and was the Drummond Professor and a fellow of All Souls College, Oxford. He is now University Professor at Columbia University in New York. In 2001, he was awarded the Nobel Prize in economics. He was

a member of the Council of Economic Advisors from 1993-95, during the Clinton administration, and served as CEA chairman from 1995-97.

7) **Sir Nicholas H. Stern** (2000 - 2003) - Nicholas H. Stern was the World Bank Chief Economist and Senior Vice President, Development Economics from July 2000 to October 2003, when he joined the UK government as Second Permanent Secretary and Managing Director, Budget and Public Finances, and Head of the Government Economic Service. During his tenure at the Bank, Stern helped to shape the Bank's poverty reduction strategy through his advocacy for two ideas: empowering people and improving the investment climate. He articulated these ideas in “A Strategy for Development”, a collection of speeches during his first year as chief economist. These ideas also subsequently influenced two World Development Reports: “Making Services Work for Poor People” (WDR 2004) and “A Better Investment Climate for Everyone” (WDR 2005).

8) **François Bourguignon** (2003 - 2007) - François Bourguignon served as Chief Economist of the World Bank and Senior Vice President, Development Economics from October 6, 2003 to October 22, 2007, (when he succeeded Nicholas Stern). During his tenure as Chief Economist, Bourguignon was instrumental in drawing attention to the important role of equity in development. His legacy also includes “Meeting the Challenges of Global Development”, a thesis produced in October 2007 as the result of the World Bank Group's Long Term Strategy Exercise, which he led. Bourguignon also started the World Bank's Development Impact Evaluation Initiative (DIME), which focuses on results assessment. Another significant contribution was his commissioning of a comprehensive external evaluation of World Bank research conducted between 1998

and 2005. He moved on to become Director of the Paris School of Economics (World Bank, 2008f).

The same patterns of government-industry connections arise as in the case of the World Bank President where Chief Economists have presided over changes and reforms to Bank policy as it has historically suited the US, especially in the case of Anne Krueger in the 1980s.

To buttress the capacity of both the President and Chief Economist in driving Bank policy in favour of American foreign strategy and profit seeking and to “strengthen economic cooperation”, The Bretton Woods Committee is charged with raising the profile and public understanding of endeavors to increase economic growth, reduce poverty and reach financial stability through the various UN affiliated IFIs. It also works to “encourage governments and legislatures to provide financing and to support wise and effective multilateral policy at the Bretton Woods institutions” (The Bretton Woods Committee, 2008) and by advancing proposals and strategies for reform of the institutions while providing a forum for debate and discussion. It seeks to re-engage political forces in the United States, while drawing a correlation between increased engagement and American economic well-being, after “contribution levels to the IMF, World Bank and other international institutions have steadily declined” (ibid.). Where current foreign assistance contributions from the US “are the lowest of any industrialized country on a percentage of GDP basis” (ibid.), it still contributes an enormous amount of funds to these organizations to ensure the flow of dollar loans, supplemented by inherent political leverage, as well as capital made by interest payments from debtor countries.

The Committee holds Annual Meetings for itself and its International Council, conferences, symposia and other unique private events aimed at keeping members informed and up to date on current international economic developments and evolving multilateral policies. The Theme for the 2008 Annual Meeting was *Shifting Global Capital and Influence: Implications and Challenges*. It publishes newsletters and special reports on a regular basis to engage elements of the US government and American public in the work of the IFIs. Members of the Bretton Woods Committee are “prominent Americans who support active US engagement in the Bretton Woods Institutions ... able to help influence US policy toward the international financial institutions” (The Bretton Woods Committee, 2008) primarily due to their political and economic connections (ibid.). Some members include:

- 1) David Abshire – Government – US Ambassador to NATO, 1983-87
- 2) Madeline Albright – Diplomat – Bill Clinton’s Secretary of State
- 3) Buzz Aldrin – Astronaut – Second man on the Moon
- 4) Dwayne Andreas – Business – Archer Daniels Midland CEO, 1970-97
- 5) G. Allen Andreas – Business – CEO of Archer Daniels Midland, 1999-2006
- 6) Norman Augustine – Business – CEO of Martin Marietta, 1996-97
- 7) James Baker – Government – US Secretary of State, 1989-92
- 8) Alan S. Blinder – Economist – Vice Chairman, Federal Reserve
- 9) John Brademas – Politician – Congressman from Indiana, 1959-81
- 10) Zbigniew Brzezinski – Government – National Security Advisor, 1977-81
- 11) George H.W. Bush – Head of State – 41<sup>st</sup> US President, 1989-93
- 12) Mary K. Bush – Business – Bush International
- 13) Jimmy Carter – Head of State – 39<sup>th</sup> US President, 1977-81
- 14) Kenneth Chenault – Business – CEO of American Express
- 15) John Deutch – Government – CIA Director, 1995-96
- 16) Robert Drinan – Politician – Jesuit Priest, Massachusetts Congressman
- 17) Archie. W. Dunham – Business – CEO of Conoco, 1996-2002
- 18) Lawrence Eagleburger – Government – US Secretary of State, 1992-93
- 19) John Engler – Politician – Governor of Michigan, 1991-2003
- 20) Gerald Ford – Head of State – 38<sup>th</sup> US President, 1974-77
- 21) Gail D. Foster – Economist – President, The Conference Board
- 22) Donald M. Fraser – Politician – Mayor of Minneapolis, 1980-93
- 23) William E. Frenzel – Politician – Congressman from Minnesota, 1971-91
- 24) Henry Louis Gates, Jr. – Author – *The Signifying Monkey*

- 25) Rob Glaser – Business – CEO of RealNetworks
- 26) C. Boyden Gray – Government – Conservative Activist, Lobbyist
- 27) Alexander Haig – Government – US Secretary of State, 1981-82
- 28) Lee H. Hamilton – Politician – 9-11 Commission vice chairman
- 29) Richard C. Holbrooke – Diplomat – US Ambassador to UN, 1998-2001
- 30) Vernon Jordan – Business – Advisor to Bill Clinton
- 31) Helene L. Kaplan – Attorney – Of Council, Skadden Arps
- 32) Thomas H. Kean – Politician – Governor of New Jersey, 1982-90
- 33) Colbert King – Columnist – Washington Post
- 34) Henry Kissinger – Government – Secretly bombed Cambodia
- 35) Ronald L. Kuehn, Jr. – Business – Chairman of El Paso
- 36) Anthony Lake – Government – Clinton's National Security Advisor
- 37) John Macomber – Business – JDM Investment Group
- 38) Donald Marron – Business – Paine Webber CEO
- 39) Bud McFarlane – Government – Iran-Contra figure
- 40) Robert McNamara – Government – US Secretary of Defense, 1961
- 41) George J. Mitchell – Politician – US Senator from Maine, 1980-95
- 42) Walter Mondale – Politician – US Vice President under Jimmy Carter
- 43) Robert Mosbacher – Government – US Secretary of Commerce, 1989-92
- 44) Frank N. Newman – Business – CEO of Bankers Trust, 1996-99
- 45) Leon Panetta – Government – Bill Clinton's Chief of Staff, 1994-96
- 46) George Pataki – Politician – Governor of New York, 1995-2006
- 47) John Edward Porter – Politician – Congressman from Illinois, 1980-2001
- 48) Kenneth A. Randall – Business – Chairman of the FDIC, 1965-70
- 49) Bill Richardson – Politician – Governor of New Mexico
- 50) David Rockefeller – Business – Founder of the Trilateral Commission
- 51) William Ruckelshaus – Government – Twice EPA administrator
- 52) Jeffrey Sachs – Economist – *The End of Poverty*
- 53) Pat Schroeder – Politician – Congresswoman from Colorado, 1973-97
- Brent Scowcroft – Government – National Security Advisor to Ford and George Bush Sr.
- 54) Harold T. Shapiro – Educator – President of Princeton, 1988-2000
- 55) George Schultz – Government – US Secretary of State, 1982-89
- 56) Joseph Stiglitz – Economist – Ex-Chief Economist of the World Bank
- 57) David Stockman – Government – Ronald Reagan's chief economist
- 58) Lawrence H. Summers – Economist – US Treasury Secretary, 1999-2001
- 59) Strobe Talbott – Government – *Time* Journalist, Deputy Secretary of State
- 60) Paul Volcker – Economist – Chairman of the Federal Reserve, 1979-87
- 61) Mark Warner – Politician – Governor of Virginia, 2002-06
- 62) John H. Whitehead – Business – US Deputy Secretary of State, 1985-89
- 63) Andrew Young – Politician – Second black mayor of Atlanta
- 64) Mort Zuckerman – Business – Owner, *New York Daily News* NNDB (ibid.).

The above selection of the listing, which is said to have totaled over three hundred members (The New York Times, 1988), should also include former World Bank president

Alden Clausen (Wood, 2006). Additional World Bank presidents who have served on the Committee include Robert McNamara, and over 30 former cabinet members including almost all former Secretaries of State and Treasury (The Bretton Woods Committee, 2008).

Massive and coordinated representation of aligning the World Bank with US economic and political interests, but with a mandate to promote the ‘international trade leads to economic growth leads to poverty reduction’ mantra.

For a ‘poverty fighting’ institution, the continued pattern showing predominant American business interests married with political interest, is speckled too with economists and Bank apologists, towing the “more aid” line. If the Bretton Woods Institutions are indeed global ones, than one may wonder why there is only American representation on the committee. Plainly stated, there are only American members of the Bretton Woods Committee because it is a group dedicated specifically to ensuring public support for the Bank as a ‘public’ institution important to American’s, yet represented entirely by private interests.

It is not entirely valid to separate activities and influence of individuals involved in such committees according to either through government or business, for as one can observe, individual interests therein span the gamut of political and economic interdependence in foreign policy strategizing – referred to as the ‘revolving door’ between industry and the state. For example, through its Economic Development Institute, the Bank is “funding ‘think tanks’ around the world that subscribe to its values and ideology” (Standing, 2000: 752) and ideas are manipulated by leading interests. Also, The Business Center provides a guide to the range of business and investment opportunities

created by the work of the World Bank Group, which lends between US\$15-20 billion to developing country governments to fund projects for economic development and poverty reduction each year. This level of investment generates around 40,000 contracts, ranging in size from a few thousand dollars, to multi-million dollar expenditures for the delivery of a vast range of goods and services. Also, the Bank Group provides an extensive array of services and advice and facilitates private sector finance and investment in developing countries to promote growth and opportunity. Several authors have pointed either directly or implicitly to profit motives (Easterly, 2001; Gates, 1989; Gordon, 1992; Killick et al., 1998; Weiss, 1982).

The US controls the World Bank under the illusion of cooperation and even autonomy on behalf of the World Bank through its member states. Under the 'political trusteeship of finance capital, the interests of the United States financial establishment have infiltrated the highest levels of The Treasury and multilateral banks: "the US secretary, Mr. Robert Rubin under the Clinton Administration, was a senior banking executive at Goldman Sachs, former president of the World Bank, Mr. Lewis Preston, was chief executive at J.P. Morgan, and so on" (Chossudovsky, 1999: 25). So politicians and financiers each gain a stake in the coordination of development aid as expressed through the 'revolving door' between industry and government, that renders their interests and goals virtually indistinguishable. "The principal and original function of the banks is to serve as middlemen for the state elite in privatization of capital for profit and the collection of debt payments. In doing so, they transform inactive money capital into active capital (that is into capital yielding a profit). They collect all kinds of money revenues and place them at the disposal of the capitalist class" (Lenin, 1970: 31). In 2003, Greg Palast



understood the US Treasury as holding 51 per cent ownership in the Bank (Palast, 2003), ensuring that decision making and control of access to profits from debt repayments and interest is maintained. Not only what the WB gives to US in monetary terms, but also how the very policies used in structural adjustment create conditions necessary for US (and US-based corporations) control over previously sovereign nations. Dependency is a phase in the imperial trend of global capital consolidation.

The ability of the US to use its leverage to direct funds of the World Bank to aid allies is widely documented. For instance, in the late 1980s every dollar that congress was asked to furnish the Bank with, the funds the bank received from other sources allowed it to lend \$268; for every \$1 in bilateral aid that the US has given its allies, the bank has provided \$5.50 to those countries (*The New York Times*, 1988). Political and institutional pressure to lend may come in conflict with aid as a largely political act, for example, the US threatened to cut funding for IDA if it made a controversial loan to China (Fabi, 1999). The 1997 Asian crisis, “highlighted the intense involvement of the US Treasury Secretary and the International Monetary Fund (IMF) in the design of the policies favouring an increased opening to US corporations that were adopted by the region’s governments” (Vilas, 2002: 73; Wade & Veneroso, 1998; Cox & Skidmore-Hess, 1999). Despite all of this (and perhaps because of it), selectively defined poverty in the ‘third world’ continues to grow at exponential rates.

The political element alone divulging the ‘revolving door’ between state and industrial interests plays significant role in way that the imperial state operates, but does not provide the reason for explaining *why* this happens. The penetration of finance capital into the most vulnerable countries is a necessary stage in the expansion of capitalism and

its transition into imperialism, disclosing the exploitation of one class by another on a global level and buttressed by the international division of labour.

### **Tied Aid and Debt: Why the World Bank Matters to the US**

The discussion of both political and economic motives for aid above, have set the comparative stage for looking at some of the reasons how the United States is central to the operations of the World Bank through such channels as American values, export revenues, national security, procurement opportunities, reliable consumers, leadership, and anticorruption (World Bank, 2006). Following from the key concepts and arguments outlined in the review of literature of the previous chapters, the rate of capital export and repatriation supports the views accentuating the role of the state within the process of economic imperialism (referred to by some as globalization), the centrality of the export of capital needed to promote and reinforce debt and dependence, and the inconsistencies inherent to World Bank policy based on economic growth as a driver of poverty reduction. This should help to clarify the research problem of 'development' identified through the process of investigating the scope and means of financial control that the United States exerts over the World Bank's development programs, which also presumably aim at reaching the MDG of halving global poverty by 2015. But how consistent are these goals when considering tied aid and the role of corporations in FDI and capital repatriation supported by the Bank?

In the late 1980s, nothing seemed more critical than the sustained increase of funds available at the World Bank's disposal for development loans and grants under SAPs and various offshoots of pro-poor growth for poverty reduction. Projections for lending in the 1990s were pegged at over \$20 billion a year (*The New York Times*, 1988).

The UN suggests that recipient countries must implement aid properly and that donor countries must provide more of it: this is the extent of the respective responsibilities and obligations outlined by the World Bank. The DAC of the OECD calculated ODA in 2004 at \$79.5 billion, an increase of 15 per cent from 2003 and is projected to rise to \$130 billion in 2010 (United Nations, 2006: 73), still a far cry from the target contribution of 0.7 per cent of GNI from all donor countries, requiring more like \$150 billion each year to meet the MDG's by 2015. "Official Development Assistance increased by \$12 billion from 2002 and 2004" and the largest donor, the United States, "announced the biggest increases in its national aid program since the 1960's...accounting for \$8 billion of the increase" with a large amount going to both Afghanistan and Iraq (UNDP, 2005: 75). The US also gives nearly \$1 billion to the World Bank through the IDA (Kapur, 2007). The UNDP says that "aid should be thought of as a hand up, not a hand out" (UNDP, 2005: 75), and calls for more aid delivered through the same mechanisms that have provided the stark division between rich and poor. But in fact, aid is a smack down with a not-so-invisible hand.

"Macro-economic restructuring also supports global geopolitical interests" (Chossudovsky, 1999: 33) where SAP's were deployed in the former countries of the Soviet bloc such as Eastern Europe and Yugoslavia following the Cold War, with devastating consequences (ibid.). In Yugoslavia, GDP growth averaged 6.1 per cent for the two decades before 1980 (Lal, 1996), but after currency devaluation and a host of government and social spending cuts, that growth collapsed to a negative 7.5 per cent in 1990 and a further 15 per cent by 1991 (ibid.). It is a matter of historical fact that the World Bank's deleterious 'poverty fighting', effectively driven by US ideology and

policy, deliberately places economies into debt. The United States is able to use its political and economic leverage to export finance capital for investment to poor countries in the form of loans, money people are dying for to pay back. The notion of redistributive justice is alien to the Bank, however. After all, it is a bank. The movement of the global economy has been ‘regulated’ by a worldwide process of debt collection” since the beginning of the 1980s (Chossudovsky, 1999: 15) and continues with prolific perpetuity in pursuit of the imperialist national interest. Aid opens economies and finances infrastructure necessary “for the profitable operation of foreign investors but which the private sector itself in, because they are not profitable enough” (Haytor & Watson, 1984: 243) but of course the loans to build must be repaid with interest.

Mishra (2007) wrongly assumes that because ‘foreign direct and institutional investment’ in developing countries is on the rise, the significance of the World Bank and its capacity for interference is declining. Rather, the World Bank is paramount to the successful implementation of US economic and strategic policy. It must filter its interests through these organizations so that they become the interests of all. International tax and subsidy structures, from which the Bank operates, are designed to favour US corporations – the US can dump capital and exports and are guaranteed markets at favourable terms of trade. The function of the capitalist state is to create the conditions necessary to accumulate capital. Everything must become a commodity to sell for a profit. The state establishes and maintains the conditions for capitalism and the corporations who exploit them. But rather than the multinational corporation playing the central role for state imperialism as Petras and Veltmeyer (2005) purport, the argument could be made quite soundly for so-called international ‘poverty fighting’ organizations like the World Bank as

holding a more legitimate position, by virtue of its ‘international’ (and therefore assumed representative) nature, especially when shrouded in the self-driven rhetoric of ‘globalization’ without the nation state at the center of decision making.

The Committee for Economic Development (CED) was founded in the early 1940s to help plan a definite US role in the post-WW II global economy. A central concern of the committee was that “if businesspeople did not present plans for the postwar era, other sectors of society might present plans that were not acceptable to businesspeople” (Domhoff, 1978: 67). In attempting to avoid any connection to special interests, the Committee “would avoid ‘promoting the special interests of business itself as such’ and would likewise refrain from speaking for any other special interests...The CED was to be a businessman’s organization that would speak in the national interest” (Domhoff, 1978: 67). The CED consisted of 200 corporate leaders, and evolved to include economists and other academics experts who work through study groups to influence a range of foreign and domestic policies.

As an integral part of US representation at the World Bank, The US & Foreign Commercial Service (US & FCS) Advocacy Center’s Liaison Office to the World Bank (AC-World Bank) provides “strategic US Government support to increase US private sector participation in World Bank-funded procurements, International Finance Corporation (IFC) financings, Multilateral Investment Guarantee Agency (MIGA) underwritings, technical assistance grants, and other Bank-related business opportunities” (US Commercial Service World Bank Advocacy Office, 2008). Located in the Office of the US Executive Director, it is one of five Multilateral Development Bank (MDB) liaison offices at the Advocacy Center, which also maintains an international network of US

export promotion offices (*ibid.*). Corporations would not have access without multilateral or bilateral aid and international trade laws – determined by states.

Loan-financed commodity procurement tied to the US is clear through a look at dollar transfers restricted to purchases in the US – tied aid as an implementation measure “to reduce the foreign assistance burden on the US balance of payments...through the banking system, including segregated accounts of irrevocable letters of credit, of ensuring United States origin for the real resources which are imported by the recipient country when it uses aid dollars received in cash” (Coffin, 1964: 136). Instead of direct aid disbursement unrelated to corresponding export or credit item, tied aid (a requirement that dollars loaned will be used to purchase imports from the US “will result in this relationship being clear in all cases, and in some will result in a net increase in US exports” (*ibid.*, pg.137). So, the fact that the United Nations Development Program in the 2005 HDR (to which the US is the primary donor) ‘demands’ an end to tied by 2006 – this seems highly unlikely for many years to come, partly from the innate requirements of US interests and motives for providing aid. Tied aid, was thus a change in procurement policies for aid. It was estimated for 1963 obligations that “at least 85 per cent of obligations for aid-financed commodity procurement will be of US origin and that at least 76 per cent of all aid obligations in 1963 will be directly attributable to US supplied goods and services” (Coffin, 1964: 137).

The World Bank is integral to US export revenues, investment opportunities and procurement opportunities – all producing reliable customers for US goods and services, all to fight poverty of course. It is not surprising then to observe the so-called third world, as being one of the most important markets to the US. “Nearly a third of US exports are to

developing countries where the Bank has lending programs” (World Bank, 2008e). In turn, lending programs allow for an atmosphere conducive to foreign direct investment from US companies to promote private sector-led development. Back in the 80’s, which is arguably the most successful decade for neoliberal and imperialist development aid policy, the US exporters received \$1.6 billion in business disbursements from World Bank Projects in 1987 alone. This is more than the US has paid into the Bank over its then 42-year history (The New York Times, 1988). Between 1998 and 2003, “the World Bank contracted over 1.7 billion dollars to US companies” (World Bank, 2008e) in direct procurements. The Bank is more than willing to help foster enabling environments for private investment in World Bank projects by companies often represented through the interests of government departments and individuals within senior Bank positions.

With an effective international regulatory regime for foreign direct investment from American corporations, MNCs act to shape government policy, insofar as they serve as tools of that policy. So “whereas firms can influence economic performance and interfere with a nation’s economic management, they cannot undermine the authority of these powerful, sophisticated governments” (Spero & Hart, 1997,: 226). International power is based in the imperial states, not supra-national entities” (Petras, 2001a), but the state is a source of power for the multinational corporation too, for example: they are all members of the capitalist class. “The markets do not transcend the state” (Petras, 2001a). The corporate pursuit of both natural resources, and the need to cut production costs and maximize profits through FDI, are complementary factors in capitalist expansion. From 1985 to 1990, US corporate foreign investment grew by 85 per cent (Parenti, 2007). “Investment increases, notably in transport, communications, and in raw materials in

which other nations may have an economic interest” (Rostow, 1960: 102). By any reasonably applied standard, the effects of poverty reduction through aid have only confirmed the validity of this analysis.

Chossudovsky’s ‘triangular division of authority’ in the administering of multilateral aid includes collabouration between the IMF, the World Bank, and the WTO (1999, pg.35) in favour of foreign direct investment and procurement opportunities from poverty reduction programs for largely US multinationals to help reform (or privatize) former national industries. These are all Washington based institutions. Through a system of corporate mergers and consolidation, state power has deliberately sanctioned the progress of private monopolies: large capital destroys small capital in all its forms” (ibid.,pg.19). To be sure, “the headquarters [of MNCs] where most of the strategic decisions, directors and profits are concentrated in the US, EU and Japan” (Petras, 2001a). In 1989, there were over 200,000 corporations in the US and 100 of them controlled more than half of the nation’s industrial assets. Fifty of the largest banks and insurance companies own half of all the financial assets. Ten firms made 22 per cent of all the profits (Parenti, 1989). At that time, One third of assets of US industrial corporations were located outside of the US (Ibid). MNC’s actively foster “relationships between the government and domestic firms in the pursuit of national economic development” (Spero & Hart, 1997: 126) with international regulations and trade agreements encouraging their expansion.

The World Bank has been very effective in achieving the goals originating from its Articles of Agreement as defined in Chapter I, which match the requirements for the expansion of capital for profit for the benefit of the state which controls the levers of such



institutions. So it would appear that the World Bank may essentially be doing what it is precisely supposed to do, and appears that this has never been to eradicate poverty, rather than perhaps eradicate the poor themselves. For several decades now, the Bank has utilized 'development' and 'poverty reduction' as smokescreens to further national and corporate interests. It has used its position as a preferred creditor and aid coordinator in developing countries to create opportunities for private corporations, contractors and consultants to profit from inflicted crises.

The World Bank has played a significant role in the changing strategy of imperialism by opening up the pathways for the export of finance capital for profitable investment by US corporations working through, and for, the political structure of the imperial state. For instance, "projects in agriculture are in line with the interests of the increasingly powerful and expanding agribusiness firms which supply the inputs of fertilizer and improved seeds used in the Green Revolution projects" (Haytor & Watson, 1984, pg.243). The Bank's Articles of Agreement also reveal their consistency with American economic imperialist directives. The World Bank is proud of its support for corporations and private investors, as expressed on the MIGA website: "Our presence in a potential investment can literally transform a 'no-go' into a 'go'. We act as a deterrent against government actions that may adversely affect investments. And even if disputes do arise, our leverage with host governments frequently enables us to resolve differences to the mutual satisfaction of all parties" (Shalmali, 2007). Many senior Bank officials and economists espouse pro-corporate thinking and policy making (it is encouraged and expected), as many representatives have close ties with prominent US MNCs that frequent World Bank projects.

A 1999 study by Washington based Development Gap found that, through the impacts of structural adjustment in more than 70 African and Asian countries during the early 1990s “the longer a country operates under structural adjustment the worse its debt burden becomes” (Elwood, 2001: 61), and are likely to reinforce a cycle of debt, further adjustment, weakened domestic economies, and further debt. From 1980 to 2000, sub-Saharan Africa’s total foreign debt rose from \$60 billion to \$206 billion, and the ratio of debt to GDP rose from 23 per cent to 66 per cent (Bond, 2005). Africa now repays much more than it received in ‘aid’. In 2000, only \$3.2 billion flowed in while \$9.8 billion was repaid, leaving a net financial deficit of \$6.2 billion (ibid.).

Debt entails an eventual forfeiture of property, be it monetary or in the form of land or formerly public social service provision. In ‘developing countries, and for the sated purposes of development (poverty reduction), privatization and trade liberalization have always tended to strengthen the nation state at the centre of decision making through capital export and surplus accumulation. For example, massive ‘bailout’ packages (debt relief) to Mexico and Asia continued after 1998, resulting in more ‘reverse aid’ –not in the form of a loan of course, but profit. Through debt, repatriation of capital to the US stands in agreement with the Bank’s fundamental principles of capital export (from loans and FDI) for investment. It has been demonstrated in previous chapters that one of the major features for attracting foreign investors is a low labour cost, and through capital repatriation in the form of debt, debtor countries fund the projects that invariably lead them further into desolation.

In 1982, in the midst of a growing third world debt crisis, Avery & Rapkin (1982) heralded a decline in US power exercisable in the global economy, saying it had lost the

position it held in the immediate post WWII era. But it is clear that in the period between 1989 and 1991 following the end of the Cold War, the US emerged as the world's sole super-power. Aid policy is a rationalization for capital export, in that aid is used to help to establish a relationship by which ex-colonies commit themselves to buying goods from the donor countries (Beil, 2000: 87). So the World Bank approaches problems from the perspective and ideology of the financial and political community for which it operates its loans and development aid.

It is clear from the literature that aid is meant to transform societies. But, imperialism is a change where a post-modern theory of development is incapable of relaying historical developments to the fundamental economic forces, structures of dependence, and processes of the global capitalist economy, often justifying the propensity for any adverse effects of aid, and where beliefs are actually more limited by assumptions based on cultural relativity and subjective circumstances but is deterministic in its view of meaningful revolution. Everything loses relevance, and it forgets the structural and historical social conditions within the capitalist system that leads to the shifts in development practice and thinking.

The war on poverty is in fact a mask for the real project of capital consolidation for the US Empire, highlighting a unique imperial economic structure, and effective relationship between IFI's and the US. There are American fingerprints all over Bank development policy and practice. It is the consistency of policies applied and theories revised, despite the failure of development aid to reduce poverty that allows for the persistence of their pejorative effects. We will define imperialism by what it does; as exemplified best by Lenin in his discussion of the necessary primacy of monopolized

finance capital export for private investment. The very discourse of development is an expression of imperialist policy. The weapon of choice is interest, and it is within this context that development is defined, framed, and ultimately practiced.

### **‘Reverse Aid’: The Repatriation of Capital**

The ambiguous and contradictory nature of development is evident in the disconnection between its stated goal of poverty reduction through aid, and the actual growth in poverty rates as a result of aid. Consequently, contentions surrounding the predominant development paradigm reflect disconnection among theorists, development practitioners and policy makers alike, about what international development should mean and how it should be implemented. In the context of economic imperialism, this dispute is even more pronounced, as development aid constitutes a series of policies and measures that appear ultimately at odds with meaningful efforts to capsize the process of ‘reverse aid’ (Petras & Veltmeyer, 2002). For the purposes of this exercise, ‘reverse aid’ can be a euphemism for expressing the economic basis and movements of power exerted by the United States’ model over the operation of development via the World Bank. Although what has been clear is that despite clear evidence that aid is not working to reduce poverty, the 8<sup>th</sup> MDG of creating a Global Partnership for Development ensures that there is more aid from North to South, necessitating further transfers as have been witnessed. Maturing contradictions in the process of capital accumulation “provide additional grounds for increased state activity, particularly in the economic sphere” (Sweezy, 1978: 317).

The processes of debt payments and foreign direct investment offer some advantageous ways of looking at the process of reverse aid. Flows and returns of international capital through both bilateral and multilateral aid reveal interests filtered

more efficiently through the multilateral international development agencies than by direct pillage. FDI, as part of an elaborate series of conditions for aid is a means by which the imperial state is able to construct, somewhat elaborately, opportunities for profit generation, exercising “the political muscle of commercial interests” (Boyce, 2002: 241). Elwood (2001) observes that “in six of the eight years from 1990 to 1997 developing countries paid out more in debt service (interest plus repayments) [to the World Bank and IMF] than they received in new loans: a total transfer from South to North of \$77 billion” (pg.49). Investments in infrastructure financed by The World Bank provide the necessary precursors to efficient resource extraction, “and the operation of foreign business in general” (Haytor, 1982: 76), and are paid for by those who work to create the wealth that is transferred to the rich. These reverse capital flows were now used to pay interest on loans rather than productively for social services to reduce poverty – apparently the whole point of the loan to begin with. For Spero & Hart (1997), this amounts to “capital flows from South to North through profits, debt service, royalties and fees, and manipulation of import and export prices’.

Such reverse flows are, in themselves, not unusual or improper. Indeed, the reason for investment is to make money for the firm” (pg.256). “Debt repatriation to the west...has been conducive to its enlargement through the systematic creation of new debts” (Chossudovsky, 1999: 18) – debt relief is also necessary for investment capital. Further conditionality requires a diversion of funds away from those services needed to reduce poverty, and towards those favouring the establishment of conditions for profitable investment. Increased poverty and polarization exercised on the global level to consolidate economic control through management of IFI’s. Concentration and

centralization of production, property, and wealth is part of the unique drive of capital to accumulate beyond any boundary, natural resources and cheap labour – something we are supposed to refer to as ‘globalization’.

Boyce (2002) refers to the ‘catalytic’ role of aid to promote economic growth and development. Petras and Veltmeyer (2002) argue that “if aid is a catalyst of anything it is not of development, but of regression” (pg.282). For them, aid loans and grants benefit the donor country “...by catalyzing structural changes that undermine popular sovereignty facilitate vast outflows of funds and undermine locally based productive units” (pg.283). Aid, in this context, serves “as a catalyst for stabilizing imperial rule and facilitating the transfer of riches, with the overall result of what we call ‘reverse aid’ – net gain for the imperial country of centre at a cost borne by the colonies” (ibid.). And under the ‘political-economic matrix of aid’ “(protectionism and subsidies in the donor country and ‘neoliberalism’ in the recipient country)” (pg.284), aid is conditional to obedience with this reality. “Foreign aid serves as a catalyst for aid reversal – a transfer of wealth to the ‘donor countries’ (ibid.).

A ‘politically realist’ approach to aid examines the role of aid “in its historical context, looking at how foreign aid is part of the arsenal of policy instruments...to conquer markets and promote the interests of their capitalist classes against competitors and their nationalist and socialist opponents” (Petras & Veltmeyer, 2002: 282), where an ‘idealist’ orientation “conceives of aid as a disinterested policy, divorced from the interests of the capitalist class and guided by humanitarian concerns, democratic values and economic well-being” (ibid.), dismissing the historical-structural context in which imperialism operates. Reverse aid is visible through the mechanisms of foreign direct

investment from capital export through development bank's and US shareholders, reflected in the scale of reverse flows of money. In Latin America "between 1990 and 1998 US Banks received over \$329 billion in interest payments, while the total debt grew from \$476 to \$698 billion" (Petras & Veltmeyer, 2002: 285). Adjustment loans from the IFI's, and directed by US policy, create the perfect conditions for reverse aid, filtered through interest payments on debt, transfers of profits from direct investment in industry or private takeovers of national enterprises. In Latin America between 1995-1997 alone, over \$157 billion in profits were repatriated (Ibid.). Rather than contain an analysis of aid to that of regression from development, reverse aid should take into consideration that 'development' itself is attached to the purpose of aid to repatriate capital for donors (investors) through sweeping exploitation.

"The development of capitalism has arrived at a stage when, although commodity production still 'reigns' and continues to be regarded as the basis of economic life, it has in reality been undermined and the bulk of the profits go to the 'geniuses' of financial manipulation" (Lenin, 1916: 26). Net transfers (net flow minus net interest and investment income payments) of financial resources from developing to developed countries have risen steadily "from an estimated \$8.1 billion in 1997 to \$483.4 billion in 2005; and the most significant destination is the United States (United Nations, 2006: 65) who has received more than out flows from other developed countries. IFI's including the World Bank also received net funds from developing countries, and these were totaled at \$11 billion in 2003 and \$7.1 billion in 2004 as loan repayments...outpaced disbursements (United Nations, 2006: 73).

Where the liberalization of capital movement producing debt encourages the ‘repatriation of capital flight’, Chossudovsky (1999) describes ‘dirty money’ as constituting the proceeds of illegal trade and/or criminal activity, such as the drug trade, and has been deposited by Third World elites since the 1960’s in offshore bank accounts (ibid.). Petras (2001b) reports that the Brookings Institutions’ own expert scholars estimate “the flow of corrupt money out of developing (Third World) and transitional (ex-Communist) economies into Western coffers at \$20 billion to \$40 billion a year and the flow stemming from mis-priced trade at \$80 billion a year or more” (Petras, 2001b) at the time. What he refers to as ‘dirty money’ laundered illegally from private US Bank’s in cooperation with the State, flowed into US coffers during the 1990s amounting to \$3-\$5.5 trillion. With a massive trade deficit close to \$300 billion at the start of the 21<sup>st</sup> Century, without this ‘dirty money’, the US economy external accounts would be unsustainable, shrinking available investment and loan capital (Ibid.). This transfer has generated massive impoverishment and economic instability and crisis, increasing vulnerability to pressure from the IMF and World Bank to liberalize financial systems leading to further flight and deregulation, spawning increased South-North transfers (Petras, 2001b). “Both the State and the bank’s have neither the will nor the interest to put an end to the practices that provide high profits and buttress an otherwise fragile empire” (ibid.).

By determining the agency and outcome of World Bank directed aid to fight poverty, the necessity of the illusion that poverty eradication is desirable under parallel developments in imperialist expansion emerges as pure lunacy. Despite how the structure of development aid through economic growth is implemented, the consistent scheme of US external policies remains the same and successful. Insistence that ‘economic growth’



is the blueprint for poverty reduction Evidence would suggest however, that it is remains an opportunity to filter political and economic national interest through the World Bank in the form of 'aid', to justify conditionality recycling the same mechanisms favouring US economic and foreign strategy that induce failure to meet the conditions of the loans. If development aid comes from government members of IFI's (which dictate its practices), than one would assume that it is the state that benefits from investments made (either economic or political, or otherwise) in the name if development. One would therefore conclude, that as a mechanism of the state (and under its control essentially), it is the corporation that acts also in the name if the state and under its direct council to repatriate profits through reverse aid.

The rhetoric of the Bank that it is helping the poor through ODA, FDI, and increased production for export, is inconsistent with the historical development of the Bretton Woods institutions, both in their purpose and outcomes. Under financing for development activities in the context of the 2008 Review Conference for the Monterrey Consensus, the US also actively seeks significant sources of finance for its capitalist class. The South Centre is among those institutions and consortiums now encouraging increased direct North-South capital investment (The South Centre, 2008), despite the enormous amount of capital repatriated into the hands of powerful US interests as a product of 'reverse aid'. Still, amazingly, "humanitarian organizations call for targeting aid to people in need, regardless of considerations of donor self-interest" (Boyce, 2002: 241).

Haytor (1982) observes that "if repatriated profits on foreign investment, interest payments, royalty payments, debt payments, private capital sent abroad and so on, are added up, they exceed capital inflows in the form of official aid and private loans and

investments” (pg.76). Since 1984, net transfers (the result of inflows and outflows in the form of debt service) have been negative in all but three years. For example, in 2003, low-income countries received grants of about \$27 billion but, at the same time, paid out \$35 billion in debt service” (Tan, 2006). Between \$200 and \$300 billion are transferred out of the South using mechanisms of ‘free trade’ (ibid.). Further to that, for every \$1 dollar that goes into developing countries in aid, \$10 dollars come out in capital flight (Tan, 2006). This is a clever way for US to ensure systematic control over the production of a country under structural adjustment. “A large part of the money outflows from underdeveloped countries is accounted for by the repatriated profits of foreign owned business” (pg.77). Richard Barnet and Ronald Muller, in their book *Global Reach* (1974), “describe this as a system of ‘welfare in reverse’, and say that “incredible as it may seem, the poor have been an indispensable source of finance capital for the worldwide expansion of global corporations” (quoted in Haytor, 1982: 77). “Foreign companies investing in underdeveloped countries probably raise, on average, around 80 per cent of their capital in the underdeveloped countries themselves” (pg.77). Barnet & Muller (1974) also say that “between 1965 and 1968, 52 per cent of all profits of United States subsidiaries operating in Latin America in manufacturing...were repatriated to the United States...even though 78 per cent of the investment funds used to generate that dollar of profit came from local sources. If we look at the mining, petroleum and smelting industries, the capital outflow resulting from the operations of global corporations is even worse. Each dollar of profit is based on an investment that was 83 per cent financed from local savings; yet only 21 per cent of the profit remains in the local economy...A retired executive of one of the three largest multinational banks recalls for us that in the late 1950s and early 1960s his bank

always tried to use about 95 per cent local savings sources for its local loans and no more than 5 per cent of its dollar holdings” (cited in Haytor, 1982: 77-78).

Former president of the World Bank Mr. Eugene Black said of his support for aid in the 1950’s that “our foreign aid programs constitute a distinct benefit to American Business. The three major benefits are: 1) foreign aid provides a substantial and immediate market for United States goods and services, 2) foreign aid stimulates the development of new overseas markets for United States companies, and 3) foreign aid orients national economies toward a free enterprise system in which United States firms can prosper” (Haytor, 1982: 83). President Kennedy’s view was well known when in 1961 he said that foreign aid “is a method by which the United States maintains a position of influence and control around the world and sustains a good many countries which would definitely collapse or pass into the Communist bloc” (Haytor, 1982, pg.83), while less elegantly, President Nixon said “let us remember that the main purpose of American aid is not to help other nations but to help ourselves” (ibid, pg.84). In the late 1970s the imperialist economies went from providing massive quantities of capital – from \$50 billion a year over the previous two decades – to siphoning huge amounts of capital from developing countries through debt payments from aid and other investments, up to \$100 billion a year by the beginning of the 1990s (Socialist Action, 1991), “a turnaround of \$150 billion dollars a year had taken place in a decade and a half” (ibid.).

Magdoff “emphasized the flow of foreign direct investment abroad and its effect in generating a return flow of earnings” (Bellamy Foster, 2002). He provided data in his *The Age of Imperialism* showing that “earnings on foreign investments had risen from about 10 percent of all after-tax profits for US domestic nonfinancial corporations in 1950

to 22 percent in 1964” (ibid.). The reverse flow process for Magdoff is inherent in the continuous reliance on foreign debt. The economic basis of imperialism is revealed in this process. “There is often a counter flow of resources in a reverse direction by virtue of both tied aid and capital flight” (Boyce, 2002: 239). Tied aid “must be spent on the goods of the countries providing it” (Haytor, 1982: 82). Bilateral aid is almost always ‘tied’, and multilateral aid is increasingly so as well. To this point, “the average price of goods financed by aid was reported in 1982 as being 25 per cent above world market prices” (ibid., pg.85). Aid is particularly helpful in making governments dependent on more loans to repay their past loans” (ibid.).

The concentration of production in a few main firms showed that “the one hundred largest manufacturing corporations in the USA controlled 58 per cent of the land, buildings and equipment used in manufacturing in 1962 compared with 44 per cent in 1929 (Baran & Sweezy, 1966: 266). Repatriation to the US through corporate profits is a way to effectively filter public money into private coffers, amounting to staged and managed financial crises for everyone else. In 1989, Citibank earned about 75 per cent of its profits from overseas operations, mostly in the Third World (Parenti, 1998). In the same year, American and other Western corporations had acquired control over more than 75 per cent of known major mineral resources in Asia, Africa, and Latin America (ibid.). The US was South Africa’s largest trading partner and its second-largest foreign investor, with investments amounting to about \$2 billion (ibid.).

The mechanisms of ‘reverse-aid’ from the poor to rich nations have not necessarily benefited those outside the capitalist class within the imperialist state. Because capitalism exploits everywhere, this is not exception to the principles of capitalism

applied at home, applied at this most advanced stage tied to the global economy it has created. To separate the domestic economy of the United States with that of the highly politicized financial and banking apparatus, is to recognize that any ‘global financial crisis’ is most certainly contrived and manufactured by the capitalist class to benefit the capitalist class in the imperial centre. Debt dependency is a mechanism for capital repatriation to the ruling class in US, and does not benefit the whole of the imperial state. Inequality is the key and exploitation of workers everywhere is necessary for competitive profit making. The inherently structural laws of globalized imperial capitalism help reinforce state imperialism where the benefits of development to the hegemon need not be felt at the level of the working poor and others dispossessed within the borders of the US republic.

Despite massive inflows of capital from the developing world to the west, The US “has the widest gap between rich and poor of any industrialized nation” (Shah, 2006). This is also prognostic of increasing inequality documented around the world that imperialism does not mean an increase in living standards for anyone in the world other than the richest. This is evident in poverty trends not only in ‘poor’ countries, but in those considered rich as well. Imperialism operates at the same exploitative level as implanted imperialist practices in developing countries.

Because the profits returned from investment capital do not benefit the republic of America, they benefit the capitalist class as always, creating the same income disparity within its same borders as it creates throughout the rest of the world. Macroeconomic reforms that feed on poverty – “when applied simultaneously in more than 100 countries – are conducive to a ‘globalization of poverty’, a process which undermines human

livelihood and destroys civil society in the South, the East and the North” (Chossudovsky, 1999: 34).

Capital surplus from low living standard impedes further growth of production and unevenness of economic growth within the economy – it is then exported to countries where capital yields a higher rate of profit (Lyontyev, 1972). For workers now obliged to exploitative wage labour, “imperialism is characterized by a tightening of class lines and an intensification of class struggle. This occurs independently of the special international characteristics of imperialism” (Sweezy, 1978: 313), where class division perpetuates growing inequality and poverty for those in the imperialist core, and who are not members of the capitalist class. “Moreover if, in the absence of capital export...an advanced capitalist country would suffer from the effects of a low rate of profit and underconsumption” (Sweezy, 1978: 315)...”and keeps wages from rising at home as they would if the capital were invested domestically” (pg.316). “The interests and policies of capital and labour are fundamentally antagonistic” (p.316). The working class in America suffers when corporations take their production to cheaper labour markets “in order to yield the highest possible commercial profit percentage” (Court, 2003: 222) where workers in the imperialist countries can be considered ‘barriers to trade’.

Where commodity export from the West was a main feature of pre-monopoly capitalism, the export of capital is the most significant feature of imperialism and becomes the basis of imperialist exploitation and oppression: “a stream of surplus value – interest on loans and the profits of enterprises in foreign countries – flows steadily to the giving countries” (Lyontyev, 1972: 113). “As long as capitalism remains what it is, surplus capital will be utilized not for the purpose of raising the standard of living of the

masses in a given country, for this would mean a decline in profits for the capitalists, but for the purpose of increasing profits by exporting capital abroad to the backward countries” (Lenin, 1970: 73). In the search for surplus value, “the consumption of the capitalist and working classes at home is irrelevant for the purposes of accumulation, and what matters to capital is the very fact that its products are ‘used’ by others” (Luxemburg, 1951: 427). So they must make the products and then consume them. For this they will need money. But the most central point is that “capital accumulated in the old country should find elsewhere new opportunities to beget and realize surplus value, so that accumulation can proceed” (Luxemburg, 1951: 427), “...so that a market is provided for ever-increasing out-flows from the industries...in the old centers of capitalism, without the standard of life of the workers who consume these commodities being raised” (ibid., pg.352). The United States’ own policies for economic domination on a global scale are increasingly replicated at the domestic level.

Any argument that the US is not imperialist is confused by the decline of the domestic economy relative to the profits being made at the upper echelons of power within government and industry, conflating the two. The US is the largest debtor nation, where public debt increased fivefold to \$5 trillion in 1996 during the Reagon-Bush era. In 2006, the US annual trade deficit was about \$900 billion (Stiglitz, 2006), consistent with trends in recent years. Consequently, large public debt in the capitalist countries “has provided financial and banking interests with ‘political leverage’ as well as the power to dictate government economic and social policy” (Chossudovsky, 1999: 18). Likewise, the rhetoric surrounding economic globalization assumes that US just exploits the ‘market’, rather than directing it in its national interest for the capitalist class.

## **Economic Imperialism and the War on Poverty: Structural Paradox and Perverse Deceptions**

From previous sections, one is able to extrapolate the fact that aid does not reduce poverty, nor does it appear to raise living standards to the most desolate. Based on the analysis of state imperialism, capital export and international loans in the form of aid for poverty eradication, the project of World Bank led development aid actually appears to be designed for an explicit purpose other than what it officially functions to do. The importance of how development is defined and measured, and practiced for whose interests, illuminates the central problem of development in that it fails to do what it officially intends, while it succeeds at other unstated goals more fitting to its structural (historical political and economic) composition. The predominance of state imperialism over development policy at the World Bank is consistently visible in the mechanisms through which this economic domination is maintained, including the role of US corporations in foreign direct investment. An effective critique of development theory and policy in practice must validate this assertion. That is, aid cannot both work to increase profit *and* to eradicate poverty.

Considering both causes and effects of poverty and disparity, the initial impact of early global imperialism or colonialism, foreign debt, trade inequities, and conditions of overall foreign economic control, are central for understanding elements of development and economic imperialism as perpetuating poverty. Early colonialism was considered more ‘indirect imperialism’, as most forms of economic control is categorized. For hundreds of year’s British imperialism in Africa and other parts of the world created distortions and divisions in the traditional economic structures and social political fabric of cultures. Many feel that the ‘underdevelopment’ (rather overexploitation) of Africa did



not end after independence from formal political colonialism but was extended and strengthened through indirect imperial control specifically concerned with retaining power over economies.

The issue of foreign debt owed to international Banks and rich states by poor countries is also seen as both a cause and effect of inequality. Debt to foreign creditors is so great in some countries that most income is paid to service interest payments on loans with none to pay on principle debt or savings, let alone fulfilling basic human needs for survival. Trade inequity plays an integral role in considering how the international economic order perpetuates the cycle of poverty. While rich countries use tariff and non-tariff barriers to restrict imports from developing countries, these same powerful states, including the United States subsidize their own agricultural products so that they are often as cheap (or cheaper) than commodities from developing countries, perpetuating the need for aid. The absence of local control over the local economy by recipient countries of aid is significant to the discussion of poverty because decisions about their lives are often made by International Organizations like the World Bank, governments of rich nations, and by the management of transnational corporations carrying out development projects or involved with other business through ODA and FDI.

An understanding of the interconnectedness of all these factors is necessary for deciphering the real nature and purpose of development in light of these dynamics, and whether it is appropriate to categorize them as successful in effectively reducing poverty, or even structurally organized to do so. An institutional analysis of historical and current exercise of imperialism can provide an opportunity for exploring the dialectic of the obligatory structural propensity intrinsic to these appearances. Showing US corporate

profits from foreign investment help to evaluate this along with evidence for programmatic influence over development aid. The paradigm of the market versus the state reveals different ways of thinking about aid and poverty reduction in the context of a global economic structure of imperial driven production and relations.

If indeed poverty is seen as a result of faulty application of policies by either the developers or the recipient countries, then it would not appear as though there is an intentional project to continue imposing economic development policies that create the conditions observed consistently over time, that is, growing inequality, rising poverty throughout the world. The state as a driver of development is increasingly unimportant for the Global South that is exploited by the economic warfare, but the stylized imperiled state is central to the US imperial project and essential to its continued dominance and economic warfare. The centrality of this imperial encroachment comes at a cost for national governments of developing countries either driven to or enticed into economic assistance or development aid through desperation, or are taking out loans to consolidate and service interest payments on previous debt. It is not a matter of growing corporate control over the imperial state. It certainly does in recipient countries where it is a primary mechanism in the delivery of aid or in the following FDI after economic restructuring. Their roles are different but their goals are the same. In the 2002 National Security Strategy outlined by the US administration under the heading “Ignite a New Era of Global Economic Growth Through Free Markets and Free Trade”, it lists policies that the administration will advance with other countries to loosen government regulations on corporations...including legal and regulatory policies [and] policies that encourage business investment. But rather than the US operating unilaterally, it criticizes the World

Bank, “for not advocating strongly enough for free trade policies” (Juhasz, 2006: 47-48). Because these international financial institutions were wholly US creations, they are “dominated by a solid US government and corporate agenda” (ibid, pg.52). The policies of state led economic imperialism such as free trade, financial liberalization, deregulation, reduced government control and privatization concentrate wealth at the top, removing from recipient governments and communities of aid the very tools needed to ensure equity and to protect workers, rights to land, social services and the environment.

Because several multinational organizations like the United Nations, The International Monetary Fund and the World Bank define poverty typically as it relates to per capita income and other aggregate economic statistics from GDP/GNP, much is lost throughout the interpretation, and manipulation, of such results. Most would agree that despite the attempts at development and poverty reduction through economic modernization and ‘globalization’, results have been uneven at best, and have created greater inequity and disparity within and between nations. In the field of economics at least, this is the problem in definition and measurement, where any assessment of those living over \$1 US/day suggests that they are not living in poverty. Results from the continued application of the Bank’s own framework for poverty reduction proves (at least pragmatically) that by even their own definitions and application of policy, they can’t even be ‘successful’. So this cannot be a mistake or consequent failure ‘to get prices right’ ....or other such nonsense.

In this way, the power and influence of global power structures and significant institutions—including national governments of the Global North and South, the International Monetary Fund (IMF), the World Bank and the World Trade Organization –

have been used as tools by the American Empire in establishing a most dramatic increase in global inequality, both within and between nations. Poverty is defined and determined by Western constructs under a politically directed system of global capitalism that has evolved into a resilient American Empire with the help of the international financial institutions and the loan system. If those in control wanted to eradicate poverty, they would have already. Also of note is the Bank's Americanized militarized language of development such as 'fighting poverty, the 'war on poverty' ...and Jeffrey Sachs' term 'weapons of mass salvation', to describe aid.

'Globalization' is not in retreat as Waldon Bello asserts, because imperialism is not in retreat – yet. But the rhetoric of globalization, reflecting a self-moving mysterious monolith, shields the fact that “globalization is merely a euphemism for bringing the entire globe under the control of the US economy” (Gaan, 2006: 305). In an interview in 1997, J.K. Galbraith is to have said that “Globalization...is not a serious idea. We, the Americans, invented it as a means for concealing our policy of economic penetration into other nations” (Vilas, 2002). This unapologetic and proud announcement reinforces the suspicion that the global economy actually works on behalf of the powerful states to destabilize purchasing power in developed countries when production is moved overseas from the capitalist countries where wages are higher (Chossudovsky, 1999). It is therefore easy to see why using the term would be more strategic than referring to the outcomes of 'development aid', for example, as something under complete control. Faith that globalization, and not imperialism is the driving force of the global economy is paramount for the continuance of the imperial project.

‘Globalization’ did not just appear out of this air. Foreign Policy is not magic. And it is certainly not based on the principles of a free and unpredictable global marketplace. It is carefully conceived and executed to benefit the investments made with the interest service payments from the developing countries. So, aid is now essentially self financing using the profits made from corporate investment returns, interest payments on existing debt, or from debt re-servicing of new loans. Even if grants are given, conditions inherent to the restructuring of the economy always entail opening up the economy to foreign investment, lower wages, etc. The victory of spin ensures continued faith and belief in the system – in the eventuality of aid as being successful in reducing poverty – when the market is right...is essential.

Imperialism sees extremism everywhere, and thus it is only when imperialism starts to show signs of contradiction, that the most dangerous consequences of global capitalism can emerge. Under the rubric of ‘economic growth’ and ‘harnessing globalization’ for good, development has meant increased poverty, and certainly, having a ‘strong economy’ does not follow that poverty will be reduced. Flows of international capital to ‘developing countries’ have not helped the poor because the aid and investment “have rarely been targeted at improving the consumption by poor households” (Remenyi, 2004: 203) and this has profound impacts on policy decisions surrounding increased agricultural exports and imports; and access to food. This is all determined at the highest level of state machinery.

People make money during contrived, managed economic crises. This same logic is applied to international development where there is always a crisis – that of poverty. Powerful states manage to implore others to fund the ventures that enable exploitation and

profits from their corporate representatives. To succeed in its project, the US needs a network of client states that allow it to operate, either by choice or coercion. So even if the US wields unmatched economic power, it must rely on political legitimacy through complicity and even support. But exercised through seemingly benign, apolitical international organizations with the illusion of democratic representation, control is somehow more acceptable and palatable. Marxist and other theories of the role of the state remain the source of a central debate within the literature on imperialism. For US imperialism to be resilient, the strategy is just repackaged to make it more acceptable, or even concealed.

To deter focus on the increasing inequality reflected in aggregate income data, the World Bank's pro-poor growth policies for poverty reduction have evolved to include sentiments of 'good governance', 'participation', 'democracy', 'freedom' and 'ownership'. Yet, conditions such as 'good governance' are less important to development aid than the opening of the economy for foreign investment and structural changes in the forces and relations of production. Real popular democracy with social justice is perhaps a condition better avoided by imperialists. In fact, "freedom in the economic sphere is code for whatever advantages the world's wealthy people" (Seabrook, 2003: 65). "Global poverty is not a matter of lack of resources but a consequence of economic control by the rich countries" (ibid., pg.60). New trends emerging in 'empowerment' are typified by lethal microfinance, where credit (a loan) may even be considered a human right – this is the rhetoric of social capital and the ethics of Bank's where atrocious evidence of profit from poverty creation doesn't seem a contradiction in the least. Aid is a creditor oriented project designed to undermine poverty reduction and draw the poor into active

participation in their own oppression. The concept of redistributive justice is alien to capitalism's pathological expansionist logic, although the necessary illusion of a positive correlation between economic growth and a reduction in absolute poverty is highly vocalized by proponents of development aid and the World Bank.

The purpose of the World Bank, according to its First Article of Agreement is to facilitate the investment of capital for productive purposes – capital's only productive purpose is to create more capital. Capital is also invested away from home deliberately, counter to Bukharin's assumptions, to keep wages down and to ensure an export of inflation for investment. "The gaining of a colonial 'surplus profit' explains the direction of capitalist expansion. That does not mean that the struggle only goes or only can go in that direction. On the contrary, the further it develops (of course under the condition that capitalism continues to exist) the more it will become a struggle for the capitalist centres as well" (Luxemburg & Bukharin, 1972: 256). Clearly a small group of powerful economic and political insiders consolidate wealth. 'Development' is a strategy; a political, economic and social system based on the structural code of monopoly capitalism, or imperialism. One could argue that the rhetoric of poverty reduction is just that, as it is not considered in the Articles of Agreement.

If poverty is a consequence of aid, is aid also able to *eradicate* poverty at the same time? The implementation of mechanisms to solve problems which gave rise to those problems is reminiscent of the continuing legacy of development, firmly established throughout the history of 'aid' or capital export for profit. Hence, capital accumulation under imperialism will never alleviate poverty. To be sure, poverty has risen just as aid has. Aid has been equated to imperialism by many scholars (Haytor, 1971 & 1982; Cheru,

1989; Petras & Veltmeyer, 2005). If development is characterized by aid, and if aid is imperialism, then development is in fact the exercise of imperialism.

The 8<sup>th</sup> MDG, however, calls for the establishment of a mechanism to ensure more aid to the poor. This is part of a long history of consistent calls for increased aid, despite the clear results of it for the poor. As advisor to John F. Kennedy, Rostow called for doubling aid in 1960. World Bank president Robert McNamara called for the doubling of aid in 1973, the World Bank called for a doubling of aid again after the Cold War in 1990, and it did steadily increase over this period. In 2005, Jeffrey Sachs and politicians like Gordon Brown and Tony Blair also called for a doubling of aid and this was echoed at the G8 summit in July 2005 (Easterly, 2006). Is simply spending money a way of measuring the success of foreign aid efforts? No. Success is measured, in fact, by the money repatriated to the West. The prevailing ideology of economic growth and globalization also makes it easier for donors because the principles of the economics applied are universal. But there is no distinction between national economies with special national conditions and productive forces. A drastic increase in aid called for by the framework to meet MDGs, is really more of a smokescreen for leveraging more foreign direct investment – not exactly the policies one would expect a ‘poverty fighting’ institution to espouse.

### **The Success of World Bank Development Aid**

The question of whether World Bank agency based aid is working or not is an entirely accurate point of departure for evaluating the role of imperialism within the agency of the World Bank. Clearly programs aimed at reducing poverty are at odds with other more powerful interests (and structural economic obligations of capital export) of those who



retain control over the terms of development aid international trade. One has to be prepared to reevaluate ones idea of failure and success in World Bank aid based on what it has been effective at accomplishing, and whether these victories are not disjointed from the actual intent of the World Bank to operate in the service of the most powerful state to which it answers. Through its primacy at the World Bank, the US is able to use ‘poverty reduction’ as a ‘Trojan horse’ for (Wood, 2006) integrating economies into the controlled global economy, which by its very nature must accumulate surplus capital. Despite all of this (and perhaps because of it), selectively defined poverty in the ‘third world’ continues to grow at exponential rates. Hence, the apparent successes of aid must be purposeful.

There can be no honest or sound argument made to suggest that the success of aid in allowing for the continuation of poverty and consolidation of American Empire constitutes the ‘failure’ of development aid. Aid in fact, has been an ingenuous project cloaked in humanitarian concern for the well-being of those they have impoverished. Development aid is a scandal. Yet, the 8<sup>th</sup> Millennium Goal of developing a Global Partnership for Development is meant to bind aid to developing countries by institutionalizing its increase. Development aid through the World Bank for poverty reduction through the MDG framework is ‘working’ just fine, not towards its stated goals of poverty eradication (although consistent with its Articles of Agreement) but as a catalyst and conduit for American power. Aid is therefore, working to facilitate the latter (accumulate surplus capital) by falsifying the former (poverty reduction).

The fact is that aid not developing countries or reducing poverty, but ruining them while reversing the flow of capital, so that it is developing countries funding the World Bank, and not the reverse. Former Bank president Eugene Black stated that ‘our foreign

aid programs constitute a distinct benefit to American business' (Lal, 1996) by providing a market for US goods and reorienting economies to favour a market for US companies, firmly situating the World Bank operations far away from erroneous claims that it is an institution that "no longer serves a useful purpose" (Griffin, 2003: 15). Aid is given by the Bank, when it is actually given, to support the imperialist and economic interests of the metropolitan countries – why else would they offer aid? The fact is that surplus finance capital in the imperial state must be invested abroad to make a greater profits. It exports and invests that surplus gained from its ventures abroad.

The intervention of more powerful countries – by trade, aid or armed intervention - has not ensured the basic necessities for survival, but pushed the effects of the capitalist crisis onto the poorest regions for even deeper exploitation and theft. To call this 'humanitarian relief' is the vilest hypocrisy. The realities of the breadth and depth American foreign policy notwithstanding, the precisely economic drivers of capital expansion and consolidation take primacy. What has been clear is that World Bank directed policy for multilateral development aid has not reduced poverty but have fed its growth. What it also does, by fundamental association, is to systematically create a political and economic transition that suits the national interests of its handler – the capitalist class of imperial state. If globalization is a euphemism for imperialism, than any global institution working in the imperial economy would necessarily serve the interests of the prominent hegemonic state. The final conclusions of politically driven organizations are political – and driven by economic imperatives for capital.

When something is 'effective', its effectiveness speaks to its original purpose in relation to its actual affects. The UNDP (2005) considers three conditions for effective

aid: delivery in sufficient quantity “to support human development and take-off”, delivered on a value for money basis, and country ownership, (pg.7). In a June 1992 report, the Bank reported that less than 20 per cent of its structural adjustment technical assistance loans to Africa were substantially effective (Lal, 1996). But this fact evades the question of what the nature of effectiveness and success are supposed to entail. Alas, “despite the generosity and goodwill of most Americans, US foreign aid isn’t working. If its goal is to alleviate poverty abroad, we search in vain for evidence of its success”. (Moore Lappe, et al., 1987: 3). The facts, however, suggest that aid is successful in returning profits while creating more debt in those countries it purports to fight poverty, amounting to decades of disturbing trends that persist. But they know the result. Because the policies have not ‘failed, according to what they are supposed to accomplish.

Recycled rhetorical dogma of ‘adjustment leads to growth leads to poverty reduction’ covers do little to conceal the intent of development loans. The Bank is not naïve, as Hutchful (1995) would have us believe. Rather, these “assumptions and values constitute a complicated edifice of deception” (Haytor, 1971: 9). Insofar as aid is effective, Haytor (1971) observes that “its contribution to the wellbeing of the peoples of the Third World is negative, since it is not in their best interest that exploitation should continue. Any contributions to their wellbeing which may arise through aid are incidental to its main purposes” (pg.9). Aid is effective insofar as it is succeeding at fulfilling its duty to US investors, a goal wholly incompatible with poverty reduction.

This exercise has combined evidence of a lack of progress to reduce poverty (and often deepening inequality), with both theory and evidence to support the assertion that the World Bank as acting instead, as a conduit for US imperialism; and a focus on the

economic drivers, always implies a lens into the political ones and revealing their interconnectedness. The World Bank is a significant factor in continued US dominance throughout the institutions charged with the task of eradicating poverty by 2015. Through tied aid, debt and capital repatriation from the South to the North, there exists a clear opposition between poverty reduction and exercised economic imperialism through global financial institutions. Austerity measures are aimed at collecting debt, so certainly they cannot therefore simultaneously be a catalyst of poverty reduction. Evidence of debt payments have shown that much more is spent on interest payments annually than social services in the poorest countries. There certainly is development, but again, not the kind directed towards poverty reduction. World Bank aid can be seen as working in the effects that it presents, rather than those efforts that have 'failed'. Likewise, it is seemingly quite successful in maintaining the very effects it produces, despite clear evidence that these trends should never lead to poverty reduction.

The motives for aid are of central significance when approaching questions on the 'effectiveness' of aid, as the doctrines of aid clearly reflect US economic interests, and this is reflected in the system of debt collection known as 'development'. Both doctrines and motives for aid from the US have echoed a variety of strategic and economic drivers, and clear American dominance is evident through membership and representation on a number of Bank committees and key posts. Reoccurring and increasingly extreme evidence of state centered imperialist expansion of the global economy continually vindicates the direct alliance between the World Bank and the US political doctrine of economic growth as a remedy for poverty, where the results have been obvious. Nevertheless, faith in economic growth – as guided by the 'market' is a dedication most

necessary for the continued growth of control, and in fact, an inevitable rise in poverty and inequality. Development practice within the confines of a global capitalist economy will never claim victories even close to the eradication of poverty by 2015, as boldly proposed in the Millennium Development Goals. It is simply the structural incapacity of capitalist social, economic and political reality, least of all the scheme of ‘development’ of development therein, to produce conditions for profit and poverty reduction simultaneously.

US Imperialism is adapting and expanding to new frontiers of ‘development’ with the mask of fighting poverty. This means that because the structure and nature of economic globalization requires the widening of the gap between rich and poor (within and between nations), attaching contrived market mechanisms and solutions (including ‘good governance’ – read less government – and private sector for profit control) to poverty will never work. Any ‘development’ within a system of global capitalism will not reduce poverty, and this is even reflected through the Bank’s own fallacious definitions and statistics. The reduction of poverty in the so called developing world has never, and could not ever be the results of economic growth fanaticism that has already led to ‘failed’ development and a cry from the bleeding hearts of willful ignorance or denial for more aid.

## Conclusion

The central argument made throughout this thesis is that the World Bank is successfully carrying out its unstated objectives as an agent of the American economic Empire rather than its stated goals of fighting poverty. Theoretical conclusions have to be drawn on the perception of aid as 'working' or 'failing' depending on the perception we have of the institutional power structures built into the fabric of international financial relationships. One must also consider the implications, consequences, and applications of my observations for development theory and practice within the current context of advanced global capitalism and an increased drive towards 'development'. What the history of the relationship between the World Bank and the United States has shown is a stratagem for development that is imposed, and that is counter to that which it has declared.

Illuminating the relationship between the state and the World Bank informs analysis on the theory and notion of the nation state. Taking an instrumentalist perspective, the World Bank can be seen as an institution used by the state, and so there is opportunity to remove the hegemony of state power legitimized by action through international bodies. On the other hand, there would be little hope for transformation of global institutions away from the power of national interests if they were indeed part of the state apparatus itself. Therefore, the practical importance of the World Bank being seen as an instrument of the US imperial state by recipients of 'development aid' is that the capacity to convince is diminished. From its birth, the administrative structure of the World Bank and other International Financial Institutions have clearly been modelled in the interests of the imperial state in order to secure the mechanisms necessary to steer the

global economy – in part at arm's length. The political and economic conditions during the time were significant, and no less part of the structure and function of the agencies that continues to this day.

A problem statement approach has been employed throughout this thesis to expose the dialectical nature of imperialism as it is conceptualized at the theoretical level, as well as operating at the level of praxis, revealing the imperial structures reflected in the World Bank system of global poverty fighting, and the power exerted by the imperial state that convinces the world to go along with it, despite glaring evidence pointing to the failure of development aid to reduce poverty. Not only that, the evidence pointing to what it is successful in accomplishing also draws suspicion as to its original intent. The data presented in this thesis proves that aid is failing to produce the conditions that we are led to believe it can and will. Global poverty has actually increased under the persistent capitalist economy; now well into its highest monopoly stage found in modern US imperialism. Significant patterns and converging lines of evidence of US control over development aid have been offered throughout the past chapters to support these conclusions.

Through the varying theories of economic growth, poverty reduction and policies built to implement programs of adjustment, there is no room for critical analysis of the Bank or the 'effectiveness' of aid in wake of its failure to reduce poverty, away from the insistence that 'globalization' must be harnessed to work for the poor. The language of underdevelopment and the rhetoric of globalization infers we need more development, and therefore more aid to invest in development. The World Bank hence sells the idea of globalization as a justification for its pro-poor initiatives. By using ideology to

misrepresent reality and intentions, the World Bank can impose policies by presenting them as pro-poor and disguising real political economic interests. The capacity to convince and ability to impose are instrumental in the carrying out of the aid cycle.

The process by which beliefs are acquired lends itself also to the propinquity of the establishment of effective hegemony beyond the economic laws of capital. When considering who benefits from the policies of the World Bank we can conclude that it is certainly not the poor. The policies that the Bank and the West argue as necessary only empower imperialists, and their power and authority are accepted. Power is used to mobilize action towards or away from interests and the ability to impose a common belief creates a cooperative harmony. Perhaps a reason why aid does not prompt more judgment is that so many people believe in it. If poor were aware that the World Bank did not work in their favor, they would probably act differently.

When the IFIs and MNCs began to expand their scope and reach exponentially over the past half century, most seemed like arcane entities that had very little to do with people's daily lives. Rather, these institutions have an immense impact on how (and under what conditions) the fate of poor communities is determined by policies imposed from outside traditional institutions that are communal and accountable to the public. So called 'free trade' policies have contributed to the trend towards both liberalization and privatization of former state services and key industries. Typical results have included the loss of national sovereignty for underdeveloped countries, a marked increase in the wealth gap between and within nations and a huge increase in global poverty and a loss in environmental stability. In this way, public costs have become increasingly private benefits, so it is of central interest to development theorists, practitioners and policy



makers alike to reveal some of the structural forces of economic imperialism that consistently justify and reproduce neoliberal doctrine as the remedy for eradicating poverty through international financial institutions like the World Bank. Initiatives at the grassroots against the institutions of aid have been fruitless. It is time to evolve the debate into an attack on aid itself.

As argued in Chapter Three, the export of finance capital through the international loan system is a necessary part of imperialism's global reach. It fortifies this with trade instruments built to favour US corporate investment and other benefits premised on the necessary evolution of capitalism into imperialism, from the point that monopoly finance capital can be invested for higher profits throughout the world in the form of 'development'. In her theory of capitalist accumulation on the international level by the imperial state, Luxemburg emphasized the necessary role of the international Banks and the loan system as favourable conduits for American power. Political and economic structures of the nation state are able to employ a system whereby the global economy is expanded and consolidated for imperial means of empire building. Aid is working – not to reduce poverty but to perpetuate marginalization as a matter of necessity.

Evidence in previous chapters has been presented to prove beyond subjective attachment, that the World Bank has been acting as a conduit for American economic and political interests. And indeed, and political decision requires an economic one. Through the movement of aid, investment, debt and capital repatriation as argued in Chapter IV that clearly pointed to increases in poverty, the foundation was built to falsify the argument that the World Bank's 'war on poverty' was actually working towards this end. Rather, and what is clear from a combination of factors including capital repatriation,

corporate profits, and the 'revolving government-industry-Bank door', is that the World Bank acts as an indispensable conduit for 'internationally accepted' imperialism. The only conclusion one can reach is that aid is indeed, working towards the goals it is mandated to reach. Development for poverty reduction is the deliberate expansion of imperialism, creating an overall growth in social polarization.

The greatest clarity of all comes in the realization that if the goal was to eliminate poverty, they would have done it already. Poverty will not be altered (only deepened) by development aid in a global capitalist economy. The argument that the World Bank aids in the reduction of poverty towards the meeting of MDG's is suspect to say the least. Insofar as poverty reduction/alleviation goes, development aid is a clever disguise, as massive amounts of aid have increased poverty and resulted in a regression regarding the MDGs. The advanced global capitalist system in the 21<sup>st</sup> century is not controlled by a group of powerful multinational corporations working autonomously from an imperial nation state political structure. Likewise, the global capitalist market is not a 'self-moving' entity. The market is not a thing; it is an unequal exchange relationship; or, a power relationship preventing most from fulfilling their most basic human needs.

The medicine of the neoliberal economic doctrine is applied supposedly to encourage growth. Growth creates the exacerbation of poverty evident in the growing gap between rich and poor, between and within countries both in the Global North and South. Any 'development' within an advanced global capitalist economy necessitates a process of exploitation through the search of profits within and across nations in the global north and south. On the global level, development as economic growth will never reduce poverty, because this would entail processes alien to the logic of imperial capitalist

accumulation. The nature of the problem of poverty is that it is created and maintained by the same policies that are supposed to (or are said to) reduce it. This writer holds the opinion that development aid is not designed or intended to reduce poverty. Development aid if not designed to the purpose results in the exacerbation rather than the alleviation or reduction in the level of poverty.

There are different interpretations of the 'effectiveness of aid' and its import in reducing poverty, but the facts show that aid is not effective in reducing poverty. It is, however, effective in fortifying US economic control over the world through the global economy with the help of its 'World Bank' in a system that creates and indeed relies on exploitation marginalization by default. One need only review motives alone to see how the historical progression of aid has revealed that it is working. The aid agenda is about control, and there only seem to be more calls for aid. Based on historical consistencies between growing imperial hegemony over the global economy and an increase in inequality established through the aid cycle, liberalization and privatization, debt, and rising poverty appear to be just what one would expect. In fact, the Bank has operated in accordance with the Articles of Agreement. The methods employed are used to create conditions that require more loans and more debt. Through capital export into the international loan system for profit, resulting debt creates a reality where recipient countries of aid are using their own money to further finance their enslavement while remaining a source of revenue for the imperial state.

It is clear in the literature from all positions that aid is meant to transform societies, and any structural changes in purported 'development agencies' like the World Bank within an imperialist economic world economy of national interest are not feasible.

Through the structures that cause and perpetuate poverty, capitalism must perpetuate exploitation and inequity to extract a surplus profit for reinvestments directed by the dominant imperial state. The immediate goal is not economic power but to advance geopolitical interests supported by both economic and political power. It is hard to imagine how others believe that poverty reduction is possible within a global economy where globalization is synonymous with imperialism. And the fact that the World Bank has been since its inception, an instrument of the United States rather than a gradual process of consolidation of control, creates more problems as to what the way forward should be.

The 'human face' of development and aid has opened the door for using language like 'human rights' and 'democracy' to impose the unilateral strategy of the United States throughout the rest of the World. The ability to galvanize the public into accepting the results of aid as counter to which it declares is the intent, is astounding and persistent. If the UN did not risk irrelevancy in turning a blind eye to the US invasion of Iraq, it certainly does risk it now, when considering the partnership forged between the Bank, the US and the United Nations in the 'rebuilding' of Iraq. Research into these problems is timely and necessary as the very nature of 'development' is questioned. More aid is not the answer.

The present global economic crisis is a manufactured breakdown of the domestic economy – designed to consolidate property and power. Unless grassroots campaigns and anti-capitalist academics understand the nature of development aid, they will only call for more of it to balance out the effects that the current economic wallop will render on developing countries. As discussed in previous chapters, developing countries have an incentive to keep the US dollar strong to balance their debt to GDP ratio, and so against

this backdrop, it is reasonable to suggest that the American economy will appear to collapse while consolidation is occurring at the highest levels. The argument for the inevitability of globalization will continue to inform some of the reasons why the poor (and the left in general) fail to question or halt the process.

If globalizaton can be seen as an effective pathway for eliminating poverty, and if we can understand globalization as imperialism, than we can conclude that imperialism will not provide the conditions necessary to eliminate poverty. If development is imperialism, and we see the *effects* of imperialism as consequences of development, than we do find development successful in its intended form. World Bank development aid has not failed to promote 'development'. Development is a construct we have misinterpreted because of what we are leaded to believe it entails. Development does not lead to underdevelopment but to overexploitation. But until we recognize the difference...it's business as usual.

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