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The monetization of global poverty: the concept of poverty in World Bank history, 1944–90*

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Abstract

This article traces the history of the concept of poverty within the institutional framework of the World Bank, from its inception to its establishment of the dollar-a-day global poverty threshold. The Bank's evolving conceptualization of poverty and how it related to the development process affected the policies that were advanced to boost the productivity of underdeveloped countries. Internal and external influences and constraints conditioned the Bank's approach to poverty and its alleviation from the beginning, when poverty was conceived as a political issue beyond the scope of the Bank's mandate. Separating the political implications of poverty alleviation from the Bank's development agenda was tenuous, and by the 1970s a universal, absolute concept of poverty became the focal point of Bank operations. The eventual monetization of global poverty reflected the increasingly technical nature of the Bank's development work and its need for a practical yardstick by which to measure the success of its anti-poverty policies.

Keywords anti-poverty policies, development, poverty, transnational institutions, World Bank

Introduction

The current stated mission of the World Bank[1] is to eliminate poverty throughout the world, but this has not always been the case. Poverty did not become an explicit concern for the Bank until the 1970s, when, according to a common narrative, poverty alleviation became a defining feature of development. The concern for poverty was neither sudden nor the product of some intellectual or moral awakening at the Bank. Instead, changing institutional ideas and needs, in

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1 Initially founded as the International Bank of Reconstruction and Development (IBRD), today the World Bank Group consists of five institutions but the term 'World Bank' refers only to the IBRD and the International Development Association (IDA). The IBRD makes loans near market rates to governments of middle-income countries and creditworthy low-income countries. The IDA, created in 1960, makes long-term interest-free loans and grants, called 'credits', to the governments of the poorest countries, which are otherwise ineligible for IBRD loans. This article uses the terms 'World Bank' and 'Bank' interchangeably to refer to either the IBRD prior to 1960, or to the IBRD and IDA from 1960 onwards.

combination with external influences and factors beyond the Bank's control, helped bring about this gradual shift. The definition of poverty has often been taken for granted in historical writings about the Bank, neglecting how its meaning has changed over time. As a concept, however, poverty has been hotly contested, and views within the institution have been far from homogeneous. In spite of this, the way in which poverty has been defined at the institutional level has affected the form and content of the Bank's development policies. The Bank has possessed the political and financial clout to promote its own ideas about poverty, defining standard development practice while concomitantly marginalizing alternative approaches.

In 1990, the Bank established its global poverty line at US$1 per day, enshrining a monetized concept of poverty as the single most important indicator of development. The importance of the dollar-a-day threshold was reflected in its use to define the first Millennium Development Goal – halving the proportion of people living in poverty – and the selection of the World Bank to monitor its progress.[2] Global poverty estimates have been informed by the Bank's poverty line and have influenced assessments of the seriousness of global poverty, the resources mobilized for its reduction, and the countries to which resources are directed.[3] Arriving at a monetized, consumption-based conception of poverty was a product of nearly fifty years of institutional debate and struggle with respect to how poverty alleviation and the development process were interrelated.

The central contention of this article is that the way in which the Bank, as an institution, conceptualized poverty underwent a gradual yet critical transformation, which eventually brought poverty eradication to the core of its operations. The Bank's constitutional Articles of Agreement required that it remain apolitical, and that its loans be strictly for productive purposes. This mandate and a confluence of other factors led the Bank to eschew loans for welfare considerations, in favour of loans for projects designed to enhance productive capacity and infrastructure. The work of development was generally understood by the Bank's staff as increasing a country's productivity, while the alleviation of poverty was seen to involve social and distributive considerations best left to governments. The project approach was highly technical, and required a well-educated professional staff.

However, the tension between the Bank's constitutional requirements and the requirements of development work was readily apparent from the institution's early days. Outside the Bank, the issue of poverty alleviation was increasingly seen to be fundamental to the development process through the 1960s. Even once the issue of poverty became an explicit concern for the World Bank, the institutional ideas surrounding it did not remain static. While poverty remained a political concept with a wide range of meanings and paradigms, the Bank tended to promote a concept of poverty that was narrower in scope. During the 1970s, poverty was framed in biological terms as an inability to meet the needs of the human body, before evolving into an economic construct with a closer affinity with the Bank's other overarching objective of economic growth.

There is no paucity of literature related to the World Bank, but relatively few scholars have taken an explicitly historical approach. Most of the institutional history was commissioned by

2 Angus Deaton, 'The *World development report* at thirty: a birthday tribute or a funeral elegy?', in Shahid Yusuf, ed., *Development economics through the decades*, Washington, DC: The World Bank, 2009, p. 108.

3 S. G. Reddy and T. Pogge, 'How not to count the poor', in S. Anand, P. Segal, and J. E. Stiglitz, eds., *Debates on the measurement of global poverty*, Oxford: Oxford University Press, 2010, p. 43.

the Bank itself, and includes two impressively detailed reference works. The first, *The World Bank since Bretton Woods*, was published in 1973, written by Edward Mason and Robert Asher. Mason and Asher provided a thorough description of key events and people at the Bank, portraying it in a positive light overall by emphasizing successes and largely refraining from criticism. The second, *The World Bank: its first half century*, was written by Devesh Kapur, John P. Lewis, and Richard Webb, to commemorate the Bank's fiftieth anniversary. In their authoritative tome, the authors argue that the defining characteristic of the Bank from its beginning was coping with poverty, 'whether the institution knew it or not'.[4] Their framework of analysis contrasted sharply with that of Mason and Asher, who scarcely engaged with the subject of poverty.

One shortcoming of these histories was that they neglected to give adequate attention to how the idea of poverty within the World Bank changed over time, and how varying conceptions of poverty informed operational policy. Meanings of poverty can be traced at least to antiquity, and are embedded with common sense understandings that have shifted over time, and yet are difficult to capture in academic debates. Although the meaning of poverty might seem, superficially, to be commonly understood and intuitive, its widespread use has resulted in a broad spectrum of interrelated meanings.[5] The Bank's prevailing conception of poverty, however, has not always been formalized or clear. Kapur, Lewis, and Webb seemed to understand poverty in its post-1990 monetized sense, but their projection backward in time was problematic, insofar as it took a static concept of poverty for granted. By contrast, Martha Finnemore has given attention to conceptual shifts at the Bank, arguing that the idea of development was redefined to incorporate poverty alleviation in the 1970s.[6] But, in that context, the concept of poverty was undergoing simultaneous shifts in meaning and connotation. Michele Alacevich has made recent contributions to the early history of the Bank, analysing the internal institutional debates that determined the form and content of its development policies. His work has demonstrated that alternative views regarding poverty alleviation existed at the Bank, but were marginalized within the prevailing institutional culture.[7] Complicating the matter further, the distinction between different conceptions of poverty was often blurred, especially during times of transition, and identifying shifts in meaning can be a matter of perception or perspective.

The post-war world and the Bank's early approach to development

The World Bank was created along with the International Monetary Fund (IMF) at the Bretton Woods Conference in 1944, at which representatives from the Allied nations met to

4 D. Kapur, J. P. Lewis, and R. Webb, *The World Bank: its first half century*, vol. 1, Washington, DC: Brookings Institution Press, 1997, pp. 5–6.

5 P. Spicker, *The idea of poverty*, Bristol: Policy Press, 2007, p. 3.

6 M. Finnemore, 'Redefining development at the World Bank', in F. Cooper and M. Packard, eds., *International development and the social sciences: essays on the history and politics of knowledge*, Berkeley, CA: University of California Press, 1997, p. 220.

7 M. Alacevich, *The political economy of the World Bank: the early years*, Stanford, CA: Stanford University Press, 2009.

discuss the post-war economic world order. American dominance at the Bank was quickly manifest: the institution was headquartered in Washington, DC, the US government selected the Bank's president, the US provided most of the loanable funds and the primary market for Bank securities, and the US always possessed the largest share of institutional members' votes.[8] The context of the Cold War was critically important for the Bank's operations. In the immediate post-war period, the notion of poverty connoted unequal distribution of wealth and opportunities, and any response to address the issue was informed and penetrated by ideological beliefs. The beginning of the Cold War, coupled with the preponderance of American influence at the Bank, elevated sensitivities to anything resembling communism, which undoubtedly contributed to the initial politicization of poverty.

At its inception, the Bank was mandated to undertake post-war reconstruction in Europe and to promote the development of underdeveloped countries. The enormous sums made available through the Marshall Plan in 1947 marginalized the Bank's role in reconstruction, causing it to shift its focus to the nascent field of development. Responsive to its new role, it described its 'design and purpose' in that year as 'increasing the level of production throughout the world', and doing so as rapidly as possible.[9] During the Bank's early years, the development process was differentiated from poverty alleviation and viewed as management of the economy, as opposed to social management. Then as now, the advice and development policy disseminated by the Bank was presented as neutral, sound economic and financial management, devoid of ideological considerations.[10] The young Bank was populated by investment bankers, lawyers, policy economists, and engineers, and the technicality of development work was derived primarily from their disciplinary methods and professional norms. The expertise of the Bank's staff helped to enhance the credibility and technical legitimacy of its efforts to boost productivity in the developing world.[11] Addressing poverty would introduce value judgements of social priorities into the work of its staff, which would have endangered their claims to be disinterested technicians and compromised their professional integrity.

The argument of Kapur, Lewis, and Webb that the Bank had always been concerned with the alleviation of poverty has also been advanced retrospectively by the Bank itself. The 1965–66 World Bank *Annual Report* stated plainly that, from its creation, the Bank's mandate included 'helping two-thirds of mankind to rise from poverty'.[12] The 1990 *Report* affirmed that the 'Bank's basic mission throughout its history has been to reduce poverty', in addition to accelerating growth.[13] Yet examination of the Bank's reports and publications reveals that poverty was seldom mentioned until the 1970s, before becoming ubiquitous

8 E. S. Mason and R. E. Asher, *The World Bank since Bretton Woods*, Washington, DC: The Brookings Institution, 1973, p. 28; R. H. Wade, 'U.S. hegemony and the World Bank: the fight over people and ideas', *Review of International Political Economy*, 9, 2, 2002, p. 206.

9 IBRD, *Annual Report 1946–47*, Washington, DC: IBRD, 1947, pp. 5–8.

10 R. Ayres, *Banking on the poor: the World Bank and poverty*, Cambridge, MA, and London: MIT Press, 1983, p. 74.

11 Kapur, Lewis, and Webb, *World Bank*, vol. 1, pp. 456–7; W. Ascher, 'New development approaches and the adaptability of international agencies: the case of the World Bank', *International Organization*, 37, 3, 1983, p. 427.

12 IBRD, *Annual Report 1965–66*, Washington, DC: IBRD, 1966, p. 5.

13 IBRD, *Annual Report 1990*, Washington, DC: IBRD, 1990, p. 57.

after 1973. Kapur, Lewis, and Webb reasoned that early Bank references to 'less developed countries' and 'standard of living' were approximations for poverty, and thus development and increasing living standards were roughly coterminous with poverty alleviation.[14] However, while the near-absence of poverty from early Bank discourse is conspicuous, it does not sufficiently counter the claim of Kapur, Lewis, and Webb, who include the qualifier 'whether the institution knew it or not'. The Bank's silence on the subject of poverty was readily acknowledged and explained by Kapur, Lewis, and Webb as the result of the embarrassing nature of the subject, the self-image that the Bank wished to project, and the slow process of learning about development.[15] Contrary to the authors' assertion, however, the Bank's management made a careful distinction between development and addressing poverty.

Senior staff members had always been aware of the issue of poverty, but conceived it to be different from the problem of underdevelopment. Alacevich's recent work has shown this, and further inspection of internal Bank documents and oral history transcripts confirm his findings. Leonard Rist, economic director at the Bank during the 1950s, wrote that 'Economic development may be said to consist for the most part of a continuous long-term increase in real income per head, or, in other words, of increase in productivity.'[16] In a memorandum to the UN, the Bank conveyed its understanding that 'underdeveloped countries are taken … to mean the vast areas of the world in which income per capita and, consequently, the average standard of living, is below the level prevailing generally in Western Europe, the United States, Canada, Australia and New Zealand. They thus comprise, broadly speaking, Latin America, most of Eastern and Southeastern Europe, Asia and Africa.'[17]

The common denominator of these areas was perceived to be a lack of capital and 'backward techniques'; as such, development was conceived as 'the process of increasing real capital and improving techniques of production'.[18] The problem of underdevelopment, therefore, was low gross domestic product (GDP) per capita, and was amenable to technical solutions – the notion that fostering a favourable macroeconomic climate while investing in infrastructure and productive facilities would boost economic growth and spur development was believed to be grounded in scientific evidence.[19] Indeed, it was believed that development work could be pursued with a degree of neutrality and objectivity, resulting in rationalized courses of action which were unsullied by ideology or normative judgements.[20]

The notion of addressing poverty, however, was seen to involve politically charged questions, decisions, or value judgements related to the distribution of income and wealth

14 Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 94.

15 *Ibid*., pp. 52–4.

16 World Bank Group Archives, WB IBRD/IDA 02 Central Files, Series 4219 Operations Policy Files, 1946–1968 (henceforth WBA, OPF), Folder 30132380, L. Rist, 'Reflexions on economic development', June 1954, p. 2.

17 WBA, OPF, Folder 30132378, 'Memorandum on methods of financing the economic development of underdeveloped countries', 6 May 1949, p. 2.

18 *Ibid*.

19 WBA, OPF, Folder 1070968, 'Considerations on the development of economically underdeveloped countries', 1947, p. 4.

20 A. O'Connor, *Poverty knowledge: social science, social policy and the poor in twentieth-century US history*, Princeton, NJ: Princeton University Press, 2001, p. 3.

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within a country. The design and implementation of poverty alleviation strategies would therefore require distributional and welfare considerations, which were matters thought to reside most appropriately with governments. Given its mandate to remain politically neutral, the problems related to the experience of poverty were not part of the Bank's operational mandate. In 1948, a policy paper argued that 'Clothing and feeding of most Chinese and Hindus could only be justified on the basis of charity, and the world cannot afford this at the present moment.'[21] The fourth *Annual Report* categorized 'wide extremes of wealth and poverty' as a limiting factor of development which was 'political in character'. The report noted that the task of maintaining political stability in such situations of distributional inequality fell to local governments, and clearly exceeded the scope of the Bank's apolitical mandate.[22]

Thus, the near-absence of poverty from Bank discourse was due neither to coincidence nor to the subject matter's tendency to make economists blush. The Bank gave brief recognition to the problems of hunger and malnutrition, but only insofar as they hindered productivity:

> Economic development endeavors are frustrated by the inertia of the broad masses of the poverty-stricken, squalor-ridden and illiterate members of the subsistence economy which characterize most underdeveloped countries …. Under these conditions, it is difficult to enlist popular support for measures of economic development, particularly since the sacrifice and cost of economic development precedes in time the benefits which flow from it.[23]

The Bank was certainly not crafting an argument to support poverty alleviation as a means by which to achieve increased productivity; indeed, this was the reverse of its vision of economic development. Although the economic benefits of poverty alleviation appear to be recognized here, these passages, and others like it, are an expression of the Bank's frustration with its helplessness to address certain obstacles in its development efforts.

The Bank's conception of poverty and its general approach to development were conditioned by several internal and external factors. First, its guiding Articles of Agreement expressly forbade it from becoming involved in political activity, and required that lending be directed exclusively for 'productive purposes', and that loans must be for specific projects of reconstruction or development.[24] Thus, Bank operations focused on boosting industrial and agricultural productivity through infrastructure projects such as roads, dams, and power facilities, which were perceived to be less motivated by ideology and less politically intrusive than providing loans linked to a broad programme of intervention on multiple fronts of an economy.[25]

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21 'Considerations on the development of economically underdeveloped countries', pp. 4, 5.

22 IBRD, *Annual Report 1948–49*, Washington, DC: IBRD, 1949, pp. 8–9.

23 WBA, OPF, Folder 1069992, 'Common problems of economic development', 30 April 1953, pp. 3–4; see also IBRD, *Annual Report 1946–47*, pp. 5–8.

24 International Bank of Reconstruction and Development (henceforth IBRD), 'Articles of agreement', Washington, DC: World Bank, 1989, Article I; Article IV, Section 10(ix); Article III, Section 4(vii).

25 M. Alacevich, 'Early development economics debates revisited', *Journal of the History of Economic Thought* 33, 2, 2011, pp. 145–69; Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 8.

Second, the Bank needed to raise the majority of its funds in the American capital markets, as member subscriptions were grossly insufficient. Thus, it needed to convince Wall Street investors that its bonds were worthy of investment. A key method by which trust was gained was by focusing on productive projects, and by 1959, the Bank's bonds attained AAA rating on Wall Street.[26] But perhaps equally important was the composition of the Bank's first few administrations, which were essentially run by well-connected Wall Street men. Presidents John McCloy (1947–49), Eugene Black (1949–62), and George Woods (1963–68) had well-established networks in American capital markets through their previous employment: McCloy was a lawyer from a Wall Street firm, Black was a senior vice-president at Chase National Bank, and Woods was chairman of the First Boston Corporation. Other like-minded senior management included Robert Garner, Richard Demuth, and Burke Knapp, all of whom helped to form a formidable leadership group at the Bank, which was committed to a conservative, business-like approach to the institution's work.

When McCloy assumed the presidency, he successfully marginalized liberal and New Deal voices within the Bank. His successor, Black, was equally determined to establish the Bank as a disciplined self-financing institution.[27] The priorities of the Bank's presidents and senior management teams have inevitably influenced the institution's direction and have spilled over into the general work of staff members. Throughout its history, many Bank economists and researchers have tended to fall into line with the ideas favoured at top levels, seeking career-augmenting positive reinforcement from the institution's senior management.[28] Robert Wade has made similar observations regarding 'paradigm-maintenance' at the Bank: that is, the systematic, interrelated processes by which the institution ensures that certain views about development are perpetuated.[29] The connections and approach of the Bank's early senior management went a long way to establish its reputation as a sound investment, but also created an institutional culture in which certain ideas about development were not welcome. In short, the Bank was set on a path of conservative lending and aversion to issues of distribution and welfare, which were less palatable for investors.[30]

Lastly, as Alacevich has argued, the post-war political and ideological climate nudged the Bank away from policies which would provide for the poor directly. New Deal, Keynesian, and government planning policies – all of which bore an all-too-close resemblance to socialism – were marginalized in the emerging Cold War climate. Thus, welfare considerations fell by the wayside, as upper management argued that a trade-off

26 M. Alacevich, 'The World Bank and the politics of productivity: the debate on economic growth, poverty, and living standards in the 1950s', *Journal of Global History*, 6, 1, 2011, p. 63; Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 12.

27 Kapur, Lewis, and Webb, *World Bank*, vol. 1, pp. 76–9; J. Kraske, W. H. Becker, W. Diamond, and L. Galambos, *Bankers with a mission: the presidents of the World Bank, 1946–1991*, Oxford: Oxford University Press, 1996, p. 60.

28 K. Derviş, 'The World Bank and the evolving political economy of development', in Yusuf, *Development economics*, p. 115.

29 R. H. Wade, 'Japan, the World Bank, and the art of paradigm maintenance: *The East Asian Miracle* in political perspective', *New Left Review*, 217, 1996, pp. 3–36.

30 M. Alacevich, 'The World Bank's early reflections on development: a development institution or a bank?', *Review of Political Economy*, 21, 4, 2009, pp. 227–44.

existed between economic development and welfare development.[31] The resulting political compromise led to an ostensibly apolitical emphasis on economic growth, thereby avoiding contentious questions of distribution.[32]

Conceptual tension: conditionalities and technical assistance missions

Maintaining technocratic impartiality was no easy task for the Bank, and the distinction between development work and political involvement could be easily blurred. The development process proved exceedingly complex, and perhaps innately political, which complicated the Bank's operations. The institutional operational policy, in deference to the Articles of Agreement, stressed that the Bank must 'avoid any gratuitous interference in the internal affairs of those countries'.[33] Yet, as early as 1948, the Bank concluded that its ability to operate effectively in the field was 'hampered by the lack, in many underdeveloped countries, of clearly defined development objectives or adequate plans for their attainment'. Moreover, it was concerned from its beginnings about the poor macroeconomic environment in developing countries, stemming from 'unsound fiscal and monetary policies and inadequate machinery for taxation, mobilization of capital, exchange controls, etc.'[34] These conditions provided the basis for which loans could be productive and ultimately repaid, a critical factor for the Bank's sustained credibility on Wall Street.

The Bank's frustrations were not easy to assuage, given the institution's constitutional restraints. Loan conditionalities had been initially ruled out as being too politically intrusive, as the Bank tried to project a self-image of providing encouragement, not enforcement.[35] In reality, its lending operations did not follow this prescription, with loans used as leverage for encouraging fiscal and monetary reforms in borrowing countries. Eugene Black recalled how the Bank would refuse to become involved in countries whose policies were not in line with Bank macroeconomic preferences. During his tenure as president, he recognized that among the institution's most important activities was ensuring that countries understood 'the importance of following sound fiscal policies in developing their credit'.[36] In part, conditionality was born out of the fact that Bank lending financed less than 1 per cent of total development costs facing developing countries. Such a small proportion was not likely to significantly alter a country's growth, so the Bank began increasingly to stress macroeconomic policy adjustment.[37] One way in which it enforced policy adjustment was by stipulating that Bank membership was contingent on also belonging to the IMF. As one

31 Alacevich, 'Politics', pp. 66–9.

32 C. Maier, 'The politics of productivity: foundations of American international economic policy after World War II', *International Organization*, 31, 4, 1977, p. 613.

33 WBA, OPF, Advisory Council Note no. 3, 'Extent to which the Bank should take an active role in assisting its underdeveloped member countries to solve their development problems', 29 June 1948, p. 3.

34 *Ibid*., pp. 1–2.

35 *Ibid*., pp. 6–7.

36 World Bank Group Archives, WB IBRD/IDA 44 Oral Histories, 1961–2005 (henceforth WBA, *Oral hist.*), Eugene Black, pp. 34–5.

37 WBA, *Oral hist.*, Mahbub ul-Haq, p. 14.

architect of the Bretton Woods institutions put it, 'Basically we wanted to force countries to agree to standards in the monetary field as a condition to get the benefits of the Bank.'[38]

Concerns for client countries' lack of sound planning and macroeconomic environments laid the foundation for the Bank's long-standing service of providing technical assistance in order to 'realize its full potential in the development field'.[39] Staff members were acutely aware of the potential for the Bank to become heavily involved in technical assistance, especially with the advent of the Point Four Program, outlined in Harry Truman's inaugural speech:[40] 'We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas .... Their poverty is a handicap and a threat both to them and to more prosperous areas.'[41]

The Bank's organization of technical assistance missions provided the primary vehicle for transferring development advice to member countries. It recognized that its advice would vary from country to country, but it devised a series of guiding principles which would come to inform its country missions. First, it would undertake 'broad investigation of economic conditions' in the country; second, it would encourage member countries to 'establish suitable machinery ...[to] coordinate comprehensive surveys of development possibilities'; lastly, it would help borrowers to build up 'a constructive program of economic development, including necessary improvements in the country's financial structure'.[42]

Through an analysis of the Bank's technical assistance missions, Alacevich has demonstrated the existence of competing visions of the development process within the Bank.[43] Initially, it endeavoured to make the missions and its findings independent of the Bank, which it did mostly by hiring external economists to head the team, and by having the mission report directly to the country's government rather than the Bank. However, the recommendations of the mission reports often conflicted with the Bank's vision of development as increased productivity. The missions consistently stressed 'the importance of social overhead capital', and emphasized the need to invest in education, health, and nutrition.[44] The report from the 1950 mission to Colombia articulated very clearly that 'the attack on the problem of poverty must be coordinated on many fronts, all closely interdependent'. Indeed, 'Only by a generalized attack throughout the whole economy on education, health, housing, food and productivity can the vicious circle of poverty, ignorance, ill health and low productivity be decisively broken.'[45] The 1953 Nicaragua mission report was similar, stating that 'Expenditures to improve sanitation, education and

38 WBA, *Oral hist.*, Ansel Luxford, p. 7.

39 *Ibid.*, p. 2.

40 WBA, OPF, Folder 30132378, Memorandum, Richard Demuth to John McCloy and Robert Garner, 11 February 1949, pp. 2–3.

41 H. S. Truman, inaugural address, in *Inaugural addresses of the presidents of the United States*, vol. 2, Bedford, MA: Applewood Books, 2009, p. 112.

42 'Extent to which the bank should take an active role', pp. 4–5.

43 See Alacevich, *Political economy*, and Alacevich, 'Politics'.

44 Alacevich, 'Politics', p. 60.

45 IBRD, *The basics of a development program for Colombia*, Washington, DC: IBRD, 1950, pp. xvi, 356.

public health should, without question, be given first priority in any program designed to increase the long-range growth and development of the Nicaraguan economy.'[46] In short, the reports were an outline of the need for programme-based lending in Colombia and Nicaragua, measures which contrasted sharply with the Bank's preference for project lending. But the reports also supported a different, more holistic vision of the development process.

Despite the Bank's efforts to make the mission reports independent, the public identified the missions with the institution, and governments regarded mission reports as representing a programme of development endorsed and promoted by the Bank. As such, the reports created some panic among senior management, who recognized the difficult position in which the Bank was put when the mission's recommendations differed from the institution's own views.[47] The Bank made efforts to distance itself from these elements, but ultimately found it easier simply to assume responsibility for the mission reports, and began appointing mission heads from within rather than trying to establish a façade of independence by hiring outside leaders.[48] These reports, however, can be interpreted as early signs of tension within the Bank with respect to whether poverty alleviation could be detached from the development process. On the ground, mission leaders invariably seemed unable to do so.

The foundation of the IDA and the beginnings of a change

By 1955, the institution's tone was one of optimism, as economic progress around the world was celebrated along with an apparent rise in living standards.[49] The Bank's approach through the 1950s and early 1960s was informed by the economic common sense of the time: that growth would trickle down, benefit the poor, and raise productive capacity.[50] So convinced was the Bank by the merits of trickle-down that in 1958 it reprimanded the Indian government for diverting attention from growth toward providing for the poor: 'Not least amongst the dangers to be guarded against in the present stage of India's development is the pursuit of welfare at the expense of efficiency.'[51] The Bank's enthusiasm for growth-at-all-costs, even at the expense of welfare, was reinforced by parts of the academic world during this time. The empirical work of Simon Kuznets helped to reinforce the Bank's production proclivities, suggesting that countries undergoing growth would initially experience exacerbated inequalities, but that these would be corrected in the long run.[52]

Despite the Bank's successes, many developing countries found themselves either unable to afford its loans at market rates or strained in their creditworthiness, and had been

46 IBRD, *The economic development of Nicaragua*, Baltimore, MD: Johns Hopkins University, 1953, p. 22.

47 WBA, OPF, Folder 1069992, confidential memorandum, 'Technical assistance missions organised by the Bank', 17 March 1951, pp. 1–2.

48 WBA, OPF, Folder 1069991, memorandum, Irving Friedman to directors and area departments, 8 February 1966.

49 IBRD, *Annual Report 1954–55*, Washington, DC: IBRD, 1955, pp. 33–8.

50 Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 115.

51 Quoted in *ibid*., p. 118.

52 S. Kuznets, 'Economic growth and income inequality', *American Economic Review*, 45, 1, 1955, p. 18.

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lobbying for an agency operating on concessional terms since the late 1940s and early 1950s. The United Nations Special Fund for Economic Development (SUNFED) was established as a means for such countries to finance their development. However, major donors, such as the US, preferred to channel funds through mechanisms under their control, including bilateral transfers and the World Bank. Eugene Black also opposed SUNFED, wishing to maintain the Bank's leadership in financing economic development projects.[53]

The International Development Association (IDA) was established by the Bank in 1960 as a sort of compromise, despite long-standing opposition to concessional funding. Through the IDA, soft loans, known as 'credits', were dispensed to countries previously unable to access financial capital.[54] The IDA's establishment expanded the Bank's overall mission by increasing its clientele and resources, and broadening its lending scope beyond the financing of infrastructure projects to include the agricultural sector, water, and education.[55] In 1961, Paul Rosenstein-Rodan praised the creation of the IDA as a progressive step in the Bank's thinking: 'The formation of IDA in the Bank precisely recognizes the need and necessity of what ten years earlier would have been called fuzzy loans as a consoling phenomenon which shows that intellectual progress is rapidly being made in the Bank.'[56] In 1959, Andrew Kamarck, working within the Economics Department, noted that 'With IDA we will no longer be able to indulge ourselves into thinking we are primarily a Bank but will have to give a greater priority to our responsibility as a development institution.'[57] Although the creation of the IDA was not necessarily a signal of a fundamental change in the Bank's approach to growth and trickle-down, it was a critical antecedent for its later emphasis on poverty and basic needs.

While the IDA represented a critical juncture for the Bank, it was not due to any intellectual revolution within the institution. Rather, its creation was premised largely on Cold War geopolitics, as the US increasingly perceived the developing world as an ideological battleground, which could be won through political and soft loans.[58] During the Eisenhower administration, the Bank seemed to be a plausible vehicle for such transfers to underdeveloped regions. Since it did not offer soft loans at this time, it needed to add a component that bore a closer resemblance to an aid agency.[59] Harold Graves, whose tenure in senior management at the Bank lasted between 1950 and 1975, emphasized the critical importance of the disintegration of colonial empires through the late 1950s and 1960s in altering the institution's course, as it slowly expanded its lending operations to meet the needs of its newly independent clientele. According to Graves, it was during this period that the Bank began its transformation into a development agency.[60]

53 R. Jolly, L. Emmerij, D. Ghai, and F. Lapeyre, *UN contributions to development thinking and practice*, Bloomington, IN: Indiana University Press, 2004, pp. 68–83.

54 C. Gwin, 'US relations with the World Bank, 1945–1992', in Kapur, Lewis, and Webb, *World Bank*, vol. 2, pp. 205–7.

55 R. Peet, *Unholy trinity: the IMF, World Bank, and WTO*, 2nd edition, London: Zed Books, 2008, p. 134; Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 14.

56 WBA, *Oral hist.*, Paul Rosenstein-Rodan, pp. 20–1.

57 WBA, OPF, Folder 1790424, memorandum, A. M. Kamarck to S. R. Cope, 12 October 1959.

58 Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 136.

59 Peet, *Unholy trinity*, pp. 132–3.

60 WBA, *Oral hist.*, Harold Graves (II), p. 2.

During the 1960s, however, ideas about development and poverty began to shift in the academic world, as welfare and distributional considerations became increasingly prominent, and the merits of trickle-down economics came to be increasingly questioned. Richard Jolly has argued that the Bretton Woods institutions have typically lagged behind development thinking by five to fifteen years, a trend visible through this period.[61] The shift in thinking about poverty was reflected in a number of high-profile poverty alleviation initiatives at both national and international levels. President John F. Kennedy and the United Nations' General Assembly announced that the 1960s would be the Development Decade; in 1964 President Lyndon Johnson declared the unconditional war on poverty and his vision of the Great Society for America. The new wisdom of how poverty alleviation and development were related was captured in the UN's 1962 proposal for the Development Decade, which stated that 'Development is growth *plus* change; change, in turn, is social and cultural as well as economic, and qualitative as well as quantitative.'[62]

The World Bank's Economic Committee noted that, in contrast to the Bank, the work of the United Nations Development Programme had already taken social concerns fully on board. Internally, it was recognized that 'a certain skepticism about how all this related to the Bank's operational activities' prevailed during this time. But by the mid 1960s, many within the Bank began to believe that it had failed to incorporate social concerns adequately into its framework for development.[63] The administration under George Woods helped warm the Bank to this new thinking. Woods was an experienced investment banker with a good reputation on Wall Street, but he was less conservative than his predecessors in his approach to development. He promoted more extensive involvement in agriculture and education initiatives, improved the Bank's relations with the UN, and brought greater emphasis to development economics as opposed to banking. Unlike Black's cautious attitude toward the IDA, Woods was an advocate for the new soft-lending branch of the Bank.[64]

Although the Bank's clientele and lending capacity increased sharply with the IDA, its staff and their ideas about development and poverty remained predominately the same, and its only role as a vehicle toward poverty reduction continued to be its ability to increase productivity.[65] Through the IDA, it had begun to undertake a small proportion of programme lending, which was indeed a departure from its prior emphasis exclusively on project lending. However, the inclusion of social factors in the Bank's development model was criticized by senior staff members of the Economic Committee for advocating a view of development that was too comprehensive and irreconcilable with the institution's project approach.[66] Even by the mid 1960s, the Economic Department was not undertaking any

61 R. Jolly, 'The UN and development thinking and practice', *Forum for Development Studies*, 32, 1, 2005, p. 50.

62 United Nations, *The United Nations development decade: proposals for action*, New York: United Nations, 1962, pp. 2–3, emphasis in original.

63 WBA, OPF, Folder 1069953, confidential memorandum, C. F. Owen to Economic Committee, S. Johnson, 'IBRD: a new proposal', paper EC/0/66-160, 19 October 1966, pp. 2–3.

64 Kraske et al., *Bankers*, pp. 116, 130–6.

65 W. Iliff, address to the Board of Governors, IBRD/World Bank, *Annual meeting of the Board of Governors: summary proceedings*, Washington, DC: IBRD/World Bank, 1960, p. 8.

66 WBA, OPF, Folder 1069953, memorandum, Paolo Leon and Attila Karaosmanoğlu to Stanley Johnson, 27 October 1966.

poverty-related research, nor was it recommending the subject for future research.[67] An operational memorandum in 1965 articulated that 'It is a matter of political decisions and of social conditions whether and to what extent increased national wealth contributes to the better life of a country which is receiving external financial aid.' It argued that 'political and social decisions are the sole concern of a sovereign nation and no business [of the Bank], which should confine itself to the technical problems of Development Finance'. Yet the memorandum also seemed to soften its resistance: 'To some extent, the impact of development projects and programs on the lives of people in under-developed countries is also a technical problem.'[68] Separating the political from the Bank's development work appeared to be exceedingly difficult, and there was growing internal recognition that a broader approach to institutional operations was needed.

Simultaneously, the Bank seemed to be relaxing its rigid interpretation of project lending. The Economic Committee suggested in the early 1960s that the project approach was actually a limiting factor in a country's development. Programme lending was advocated in cases where the developing country possessed a well-formulated development plan.[69] In an address at Columbia University, George Woods summed up the Bank's interests as such: 'The *country* is the project.'[70] This position reflected changing attitudes outside the Bank as well, as development economists advocated 'abolishing the link between aid allocation and project approval', as such a connection removed incentives for improving other aspects of development policy.[71] The definition of project became 'looser and looser' over time and the Bank slowly undertook more local currency financing as the project constraint on the institution relaxed.[72]

The changing approach to project lending was certainly facilitated by the creation of the IDA. The senior vice-president of operations Burke Knapp acknowledged that, with it, the Bank gained more freedom in lending for 'social projects rather than directly productive economic projects'. He defined social projects as 'things that are less investment in future productivity and more satisfaction of current welfare requirements'. Indeed, welfare development was the very thing rejected in earlier Bank practices: welfare requirements 'were the fruits of economic development and … we would rather invest in the means of economic development and let countries develop the taxable capacity and the productivity that would enable these amenities to be provided'.[73]

In his first presidential address to the Board of Governors at the 1963 annual meeting, Woods called for the addition of 'new dimensions', such as education and agriculture, to

67 WBA, OPF, Folder 30132311, memorandum, R. Niebuhr to Files, 24 January 1966.

68 WBA, OPF, Folder 30132382, memorandum, 'Development finance and non-governmental participation', 30 October 1965, pp. 2, 3.

69 WBA, OPF, Folder 30132381, memorandum, 'Principles for the grant of foreign assistance for economic development', n.d., pp. 5–6.

70 World Bank Group Archives, WB IBRD/IDA 24, Folder 30132375, address by George Woods, Columbia University, 13 April 1967, p. 8, emphasis in original.

71 WB IBRD/IDA 24, Folder 1069953, H. B. Chenery, 'The effectiveness of foreign assistance', Round table conference on capital movements and economic development, 21–31 July 1965, p. 26.

72 WBA, *Oral hist.*, ul-Haq, pp. 13–14.

73 WBA, *Oral hist.*, Burke Knapp, p. 33.

lending activities, which deviated somewhat from the typical productive loans issued by the Bank. Although these were 'unlikely to yield quick and dramatic returns', Woods underscored the necessity of a broader agricultural development approach that would help to finance storage facilities and farm-to-market roads. He went on to outline the need for education lending to establish facilities for vocational training and general learning.[74] The address caused some panic among the finance community, which required some reassurance that the Bank's bonds were stable.[75] The importance of this changing attitude toward the project approach cannot be overstated. It facilitated a much broader interpretation of the development process at the Bank, and helped pave the way for poverty to come to the fore.

The McNamara years

Robert McNamara's presidency (1968–81) is generally regarded as a watershed in World Bank history. If the Bank began its transformation into a development agency during the 1960s under Woods, it was completed under McNamara. During his tenure, lending tripled, professional staff quadrupled, and the administrative budget expanded threefold.[76] McNamara was not a banker but a manager, and arrived fresh from his term as Secretary of Defense and involvement with the Vietnam War. He brought energy and determination to the Bank, and departed from the conservative approach to development engendered by his predecessors.[77]

McNamara was decisive in shifting the Bank's focus toward poverty, most famously with his 1973 address to the Board of Governors in Nairobi:

> Relative poverty means simply that some countries are less affluent than other countries, or that some citizens of a given country have less personal abundance than their neighbors. That has always been the case … [and] will continue to be the case …. But absolute poverty is a condition of life so degraded by disease, illiteracy, malnutrition, and squalor as to deny its victims basic human necessities …. This is absolute poverty: a condition of life so limited as to prevent realization of the potential of the genes with which one is born; a condition of life so degrading as to insult human dignity.[78]

The ideas of absolute and relative poverty were not novel, but following this address the distinction between absolute and relative poverty became enshrined in the Bank's tenets. McNamara was unequivocal that the institution's new focus would be on absolute poverty rather than relative poverty. Absolute poverty could be measured, quantified, and potentially eliminated, whereas the concept of relative poverty carried politically charged connotations of income distribution and inequality.[79]

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74 G. Woods, 'Address to Board of Governors', in IBRD/World Bank, *Annual meeting of the Board of Governors: summary proceedings*, Washington, DC: IBRD/World Bank, 1963, pp. 8, 11–12.

75 WBA, *Oral hist.*, Graves (II), p. 29.

76 Kapur, Lewis, and Webb, *World Bank*, vol. 1, p. 16.

77 Kraske et al., *Bankers*, pp. 161–2.

78 R. S. McNamara, 'Address to Board of Governors', in IBRD/World Bank, *Annual meeting of the Board of Governors: summary proceedings*, Washington, DC: IBRD/World Bank, 1973, pp. 16, 17.

79 O'Connor, *Poverty knowledge*, p. 154.

Significantly, the conceptualization of absolute poverty trumpeted by McNamara contained no reference to expenditure or income.[80] Instead, the concept which became prevalent at the Bank through the 1970s was primarily biological in nature, emphasizing poverty's effects on the human body – what Amartya Sen described as the 'irreducible core of absolute deprivation'.[81] Nevertheless, McNamara's biological definition of absolute poverty transformed it from a political distributional issue into more of an economic problem, amenable to calculations and the creation of indicators, thereby offering possibilities for measuring improvement.[82] The potential to quantify poverty according to economic measures lent a veneer of scientific detachment and objectivity to its measurement and alleviation, bringing it within the capabilities and work of economists.

Additionally, McNamara fashioned absolute poverty as a moral category, an intolerable condition of human existence. As he stated in his address, 'the fundamental case for development assistance is the moral one … the rich and the powerful have a moral obligation to assist the poor and the weak'.[83] But despite his introduction of poverty rhetoric to the Bank's discourse, he was also unequivocal about the primacy of economic growth: 'The twin objectives of development, then, are to accelerate economic growth and to reduce poverty.'[84] Again, this represented a departure for the Bank, insofar as it explicitly incorporated poverty alleviation into the institution's broadened understanding of the development process, which was simultaneously undergoing changes.[85] Growth remained central.

The ideas espoused by McNamara were not necessarily original. Other personnel were influential in bringing concerns about distribution and poverty to the Bank, perhaps most notably Mahbub ul-Haq and Hollis Chenery. Ul-Haq joined the institution in 1970, bringing with him a specific perspective of trickle-down based on his experience as Minister of Development and Planning for Pakistan. In that role, 'It was quite clear that even though we had increased the national income, we hadn't changed the lives of people.' He recalled his earliest encounters with McNamara in the early 1970s as 'extremely unhappy ones', where McNamara suggested 'that this kind of belligerent questioning of growth, at a time that the World Bank was committed mostly to production projects, was totally uncalled for'. His perspectives were equally unappreciated by senior staff members, many of whom called for his resignation. However, ul-Haq would eventually become important in McNamara's overarching focus on poverty, bringing to light the failure of growth to reach the bottom 40 per cent of the population.[86] Indeed, McNamara's address to the Board of Governors in

80 R. Kanbur and L. Squire, 'The evolution of thinking about poverty: exploring the interactions', in G. M. Meier and J. E. Stiglitz, eds., *Frontiers of development economics: the future in perspective*, Oxford: Oxford University Press, 2001, p. 196.

81 A. Sen, *Poverty and famines: an essay on entitlement and deprivation*, Oxford: Oxford University Press, 1981, p. 22.

82 M. Green and D. Hulme, 'From correlates and characteristics to causes: thinking about poverty from a chronic poverty perspective', *World Development*, 33, 6, 2005, p. 869.

83 McNamara, 'Address to Board of Governors', 1973, p. 17.

84 R. S. McNamara, 'Forward', in *World development report 1978*, Washington, DC: World Bank, 1978, p. iii.

85 See Finnemore, 'Redefining development', pp. 203–27.

86 WBA, *Oral hist.*, ul-Haq, pp. 2–7.

1972 focused on the inequity of growth, stating that, although developing countries attained an annual GNP growth rate of 5 per cent, 'the social impact of that growth was so severely skewed … that the simple statistical achievement of that target was misleading'.[87] The poor were being left behind.

Research at the Bank became increasingly data-driven, with Hollis Chenery in the fold, as the institution's research capacity developed into a formidable bastion of development economics. As the Bank's Chief Economist, Chenery led his research team in publishing *Redistribution with growth* in 1974, a work which crystallized the wisdom that growth was not equitably reaching the poor: 'The fact of poverty is not new …. What is new is the suspicion that economic growth by itself may not be able to solve or even alleviate the problem within any "reasonable" time period.'[88] The book's central argument was that development objectives must include income distribution and fuller employment. Published on the heels of McNamara's Nairobi address, *Redistribution with growth* became the 'semi-official' theoretical framework of the Bank. Superficially, this new framework should have signalled a radical intellectual turning point in the conception of development, growth, and poverty. However, its premise was reliant on the elite classes in the Bank's client countries making some voluntary self-sacrificial concessions to the poor, not on an interventionist redistributive scheme. Furthermore, the causal chain of the factors which generate absolute poverty was quite short, explaining poverty as a simple lack of jobs and productivity among a population. There was certainly no questioning of the international economic system, which the Bank had little interest in changing.[89] In his Nairobi speech, McNamara even referred to the impoverished as 'victims', yet there was no interrogation of root causes. This refusal to explain the existence of poverty or its causes allowed the Bank to portray it as a naturalistic state of affairs, which simply happened to affect some countries and populations more than others.

The next major framework which gained some traction at the Bank was the 'basic needs' approach. It was launched by the International Labour Organization in 1976, and was supported shortly thereafter by the Bank, which began to advocate for health, nutrition, clothing, shelter, water supply, and sanitation provisions in its operations.[90] This was a logical strategy to address McNamara's biological concept of absolute poverty, as meeting the basic needs of people corresponded very closely to the deleterious effects of poverty on the human body. But the new approach created difficulties because no suitable indicator or set of indicators could be found to adequately measure and monitor the Bank's progress in meeting basic needs in client countries.[91]

Chenery stated that, even after exploring the basic needs approach, the Bank continued to favour market-oriented approaches focusing on raising productivity rather than supplying

87 R. S. McNamara, 'Address to Board of Governors', in IBRD/World Bank, *Annual meeting of the Board of Governors: summary proceedings*, Washington, DC: IBRD/World Bank, 1972, p. 30.

88 H. Chenery et al., *Redistribution with growth: policies to improve income distribution in developing countries in the context of economic growth*, Oxford: Oxford University Press, 1974, p. 3.

89 Ayres, *Banking*, pp. 76, 79–82.

90 P. Streeten, *First things first: meeting basic human needs in developing countries*, Oxford: Oxford University Press, 1981, p. vii.

91 N. Hicks and P. Streeten, 'Indicators of development: the search for a basic needs yardstick', *World Development*, 7, 1979, p. 568.

basic necessities.[92] As ul-Haq recalled, McNamara was not interested in welfare schemes, wanting instead to make poverty 'acceptable to the bankers' and 'financially viable'.[93] The growing evidence contradicting the notion that 'growth does it all' began to convince McNamara that the conditions of poverty inhibited the ability of the impoverished to participate in growth or increasing production. The basic needs approach was 'not primarily a welfare concept', but was more about helping the poor to reach their productive potential. Perhaps more importantly, connecting basic needs and poverty with productivity supplied moral underpinnings for economic growth: 'The vital message is that some steps we all have long known to be morally right – primary education, for example – make good economic sense as well.'[94]

Despite McNamara's poverty rhetoric, many senior staff members regarded it as a 'thin veneer' that was 'never the policy of the Bank'.[95] Richard Demuth, who worked within the Bank from 1946 to 1973, has argued that many of the institution's public expressions of its newfound concern for the impoverished took McNamara's emphasis on poverty intentionally out of context. In this manner, the Bank's 'formal rhetoric' shifted the emphasis onto 'removing poverty rather than on increasing productivity'. Demuth's view was quite the opposite: 'The role of the Bank is to increase the productivity of countries so that they can deal with their own poverty. I don't believe it's feasible for the Bank to run a global poverty alleviation program. Rather, I think the Bank's emphasis should be on trying to increase the ability of countries to develop themselves.'[96]

Burke Knapp argued that the 'poverty thing' did not begin with McNamara, but that 'we were very alive to the problems of poverty' through the 1950s and 1960s. He suggested that the Bank understood the various aspects of poverty and, although its focus was on infrastructure projects, 'The whole purpose for the development of infrastructure was to encourage the development of productive capacity to raise living standards, to lift people out of poverty.'[97] In 1966 he reacted strongly against a paper delivered by Hollis Chenery (prior to his tenure at the Bank) which favoured programme lending over project lending.[98] Knapp and Demuth were members of the 'old guard' in this respect, believing very strongly in an organizational identity as a bank, rather than a development institution. In contrast, Chenery and ul-Haq represented the new direction of the Bank led by McNamara, which eschewed the rigidity and conservatism of the institution's early approaches to development.

The Bank's general understanding of the nature of poverty and how it might be brought under the institution's purview was in flux. Some members of its management resisted the incorporation of poverty into operations and policy, but the Bank was also responding to external changes in development thinking and pressures from American foreign policy.

92 WBA, *Oral hist.*, Hollis Chenery, p. 12.

93 WBA, *Oral hist.*, ul-Haq, p. 4.

94 Streeten, *First things first*, p. 3.

95 WBA, *Oral hist.*, ul-Haq, p. 16.

96 WBA, *Oral hist.*, Richard Demuth, pp. 26–7.

97 WBA, *Oral hist.*, Knapp, p. 14.

98 WBA, OPF, Folder 1069992, H. Chenery, 'The effectiveness of foreign assistance', memorandum, B. Knapp to G. Woods, 4 April 1966, p. 1.

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The issue of poverty was still politically charged and was the source of tension among some economists at the World Bank who never quite embraced the institution's new direction. But McNamara had indelibly turned the Bank into both a development agency and a 'knowledge bank', which placed a special emphasis on research, data collection, and data analysis. Although his biological conception of poverty was not perfectly amenable to the rigours of economic science, it was an important transitional piece leading to the dollar-a-day standard.

The *World development report*, structural adjustment, and the primacy of numbers

The McNamara administration witnessed an increased mobilization of quantitative descriptors and economic indicators. The primacy of numbers at the Bank was entrenched through the attention given to its annual flagship publication, the *World development report* (*WDR*).[99] McNamara began the annual publication of the *WDR* in 1978 with the fundamental aim of disseminating the Bank's ideas about development and providing information to policy-makers.[100] The reports were designed as synthesizing documents which consolidated data and information, distilling information and ideas into policy.[101] They also contributed the World Development Indicators to the growing empirical content of development economics. The reports have played a pivotal role in embedding poverty and poverty-related statistics into development discourse, affirming its eradication as the prime objective of the development process.[102] The *WDR*s of 1980, 1990, and 2000/2001 are of particular interest, as their central theme was poverty.

Part of the problem with the basic needs approach, from the Bank's perspective, was the absence of a suitable indicator to measure the extent of need and to monitor progress. GDP per capita, although widely regarded as the best indicator of development, was not able to capture adequately components of wellbeing such as nutrition, education, health, and shelter – indeed, the basic needs approach arose from this issue.[103] As an economic institution, the Bank had long utilized indicators in its work, with varying degrees of technical sophistication. As early as 1948, it had used some crude calculations and guesswork to categorize countries into various stages of economic development based on their GDP.[104] *Redistribution with growth* was the first Bank publication to monetize absolute poverty as living below two arbitrary poverty lines of US$50 or US$75 per year.[105] In 1975, the Bank's *Assault on world poverty* duplicated the US$50 absolute poverty threshold, but also defined relative poverty as more than US$50 per year but less than one-third the national average.[106]

99 Yusuf, *Development economics*, p. 21.

100 IBRD, *Annual Report 1977*, Washington, DC: IBRD, 1977, p. 17.

101 N. Stern, 'The World Bank as "intellectual actor"', in Kapur, Lewis, and Webb, *World Bank*, vol. 2, p. 597.

102 Yusuf, *Development economics*, pp. 20–1.

103 Hicks and Streeten, 'Indicators', pp. 567–8, 577–8.

104 IBRD, *Annual Report 1947–48*, Washington, DC: IBRD, 1948, p. 14.

105 Chenery et al., *Redistribution with growth*, p. 10.

106 IBRD, *The assault on world poverty: problems of rural development, education and health*, Baltimore, MD: Johns Hopkins University Press, 1975, pp. v, 4, 19.

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Monetizing poverty in this way marked a pivotal departure in Bank operations, as poverty alleviation became a matter of raising a country's per capita GDP. Indeed, this is exactly what the Bank's understanding of the development process had been all along.

Poverty lines were not novel constructs, but the notion of an absolute global standard was new. With a universal monetary threshold, the Bank could begin measuring the extent of the global poverty problem and the progress made in its eradication. It immediately set to work and attempted a headcount of people living in poverty around the world, a figure which was estimated at 650 million in 1975. The next year, that number swelled to 900 million, alongside an adjustment to the definition of absolute poverty to US$75 per year, demonstrating just how crude these measurements were.[107] But the measures would become increasingly sophisticated as the Bank began to utilize minimalist nutritional bundles in its calculations.[108] Nevertheless, the poor quality of data that was collected by the Bank, or made available to it, made it difficult to construct models or make calculations with any pretence of technical precision.[109]

The momentum of the poverty agenda during the 1970s was interrupted in the 1980s, which witnessed a paradigmatic shift in the Bank's development model. Those years became the decade of structural adjustment lending (SAL) at the Bank, as the basic needs approach and orientation toward poverty alleviation was discarded. SAL attached conditionalities to loans, as borrowing countries were made to enact austerity measures ostensibly designed to foster a macroeconomic climate suitable for economic growth to occur. Programme-based SAL ruled the Bank's operations during this new chapter in its history, as poverty was diminished in importance. By nature, SAL was politically intrusive, although attaching conditionalities to loans was not a new institutional practice. It was justified on the pretence of being informed by sound economic principles, as opposed to being ideologically biased. The economic wisdom of the 1950s and 1960s was perceived to have failed to distribute wealth and income in such a way as to improve the wellbeing of the poorest. The poverty-biased policies of the 1970s were likewise seen to have been unable to make an appreciable dent in the problem of global poverty. In contrast to the development policies being promoted, several low-income countries in Asia, such as India, China, Pakistan, and Indonesia, had experienced high growth rates accompanied by poverty reduction, reinvigorating the concept of trickle-down.[110] Yet McNamara's successor, Alden Clausen (1981–86), who is generally credited with reversing the Bank's agenda of poverty alleviation, still stated in 1982 that poverty alleviation was a primary goal of the institution.[111]

The Bank's pronounced shift in direction and prioritization during the 1980s is well known, but attributable to no single factor. First, the new policies reacted against rapidly rising oil prices, global recession, and the Latin American debt crisis.[112] Second, the

107 IBRD, *Annual Report 1976*, Washington, DC: IBRD, 1976, p. 39.

108 Ayres, *Banking*, p. 77.

109 Kapur, Lewis, and Webb, *World Bank*, vol. 1, pp. 726–9.

110 *Ibid*., pp. 224–9, 332.

111 Alacevich, 'Politics', p. 54.

112 R. Kanbur and D. Vines, 'The World Bank and poverty reduction: past, present and future', in Christopher L. Gilbert and David Vines, eds., *The World Bank: structure and policies*, Cambridge: Cambridge University Press, 2000, p. 91.

international political scene also took a decidedly conservative turn, as Ronald Reagan, Margaret Thatcher, and Helmut Kohl became heads of state of the Bank's three most important donor countries.[113] Out of this politico-intellectual milieu grew the Washington consensus, a group of ten policy prescriptions which enjoyed widespread acceptance among the Washington-based international financial institutions, the US Congress, and senior members of the US administration. These policies signalled a shift in orthodoxy for developing countries toward macroeconomic discipline, outward orientation, and the market economy.[114] Lastly, the Bank underwent a massive personnel overhaul in 1981, with Anne Krueger, who was well known for her market-based preferences and emphasis on getting prices right, becoming Chief Economist. She filled the Economic Department with like-minded people, accelerating the Bank's neoliberal turn. Ideas of trickle-down had returned to the Bank, which accordingly ceased to focus on providing basic services for the poor. This period brought a degree of intolerance toward research and 'a requirement to toe the "party line"'.[115] According to Nicholas Stern, it was not uncommon for those concerned with the poor to be denigrated by colleagues as 'bleeding hearts'.[116]

WDR 1981 was unequivocal about the necessity of adjustment, stating plainly that 'Unless these [adjustment] programs are maintained, many more millions will live and die in appalling poverty.'[117] *WDR 1987* was equally certain: 'industrial and developing countries alike face formidable tasks of adjustment. Should their policy efforts succeed, the world economy can return to a high-growth path. The alternative is stagnation, even greater instability, increased protection, and a missed opportunity to raise the living standards of the world's poor …. There is no viable alternative to adjustment.'[118]

While the Bank still trumpeted its goals of poverty elimination, the focus was no longer on the lives of the poor but on minimizing the current account deficits of developing countries. The shift was no doubt facilitated by the Bank's turn away from the frameworks of *Redistribution with growth* and basic needs to GDP growth as the single barometer of progress in the fight against poverty. The focus on a high-level economic indicator such as GDP abstracted the problem of poverty from being a condition of people's lives to being a condition of a national economy.

Gradually, the Bank came to acknowledge publicly the harmful effects that adjustment was having upon the poor. The various reports of the late 1980s reflected a growing concern for providing safety nets for the impoverished during the difficult period of adjustment.[119] In response to criticism and UNICEF's *Adjustment with a human face*, the Bank began to advocate social safety nets to protect the poor from adjustment-induced government

113 Peet, *Unholy trinity*, p. 138.

114 John Williamson, ed., *Latin American adjustment: how much has happened?*, Washington, DC: Institute for International Economics, 1990.

115 Kapur, Lewis, and Webb, *World Bank*, vol. 1, pp. 22, 598.

116 Stern, 'World Bank', p. 535.

117 *World development report 1981*, Washington, DC: World Bank, 1981, p. 5.

118 *World development report 1978*, pp. 5, 35.

119 See IBRD, *Annual Report 1987*, Washington, DC: IBRD, 1987, p. 16; IBRD, *Annual Report 1988*, Washington, DC: IBRD, 1988, p. 66.

expenditure cuts to basic services. In the late 1980s, a World Bank task force on poverty alleviation reiterated that long-term aggregate growth, although necessary, was insufficient for the alleviation of poverty, noting that the number of people living in absolute poverty had increased despite growth over the previous three decades. The task force recommended that growth policies be accompanied by 'clearly-defined poverty-alleviation efforts', implying that growth-inducing policies and poverty alleviation policies were different.[120] In short, the task force recommended returning to a concept of poverty and development that predominated during the 1970s, one that recognized that economic growth alone was not having the desired effects on poverty.[121] Indeed, a decade earlier, *WDR 1978* argued that 'experience suggests that the poorer members of the population are unlikely to share equitably in economic growth, mainly because they have less access to the productive assets needed to generate income'.[122]

In contrast to the certainty and lack of ambiguity in the *WDR*s during the 1980s, internal debates about development and poverty coexisted with the Bank's presentation of a united front on adjustment. In the early 1980s, despite increasing emphasis on economic indicators for poverty alleviation, the Population, Health and Nutrition Department was arguing that expenditure-based and income-based poverty thresholds do not always capture the full measure of poverty. A paper circulated in 1981 advocated the coupling of social indicators relating to health and nutrition with economic indicators as a superior means of identifying the poor.[123] Another in-house paper emphasized the multidimensional nature of poverty, arguing that 'the condition of poverty is characterized by more than a very low level of income and expenditure'. The paper paraphrased McNamara's definition of absolute poverty, describing it as 'a condition so characterized by malnutrition, ignorance and disease, that it is difficult for the human spirit to rise above it'.[124] It noted that there was little disagreement about the severity of poverty, but that consensus is difficult to achieve in how to best conceptualize poverty: 'The incidence of low income, of malnutrition, of poor health and of poor education are not the same, and different choices of standards have different implications for estimates of where the poor are and how numerous they are. Compounding the problem is the inevitable arbitrariness of any cut-off line, or poverty line.'[125]

In another paper circulated by the Economic Analysis and Projections Department in 1983, it was argued that the value of income-based poverty lines should not be exaggerated:

> Given the multi-dimensional nature of poverty and the conceptual problems inherent in defining poverty, poverty income thresholds can *per se* serve only limited purposes.

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120 IBRD, *Annual Report 1989*, Washington, DC: IBRD, 1989, pp. 84–5.

121 *World development report 1980*, Washington, DC: World Bank, 1980, p. 32.

122 *World development report 1978*, p. 7.

123 World Bank Group Archives, WB IBRD/IDA 02 Central Files, Series 2431 Policy and Research Division Files – Poverty Guidelines Subset, 1981–1983 (henceforth WBA, PRDF), Folder 1046757, Population, Health and Nutrition Department, 'Guidelines for poverty analysis in population, health, and nutrition projects', June 1981.

124 WBA PRDF, Folder 1046757, Policy Planning and Program Review Department, discussion draft, 'Poverty and the least developed countries', 2 March 1981, p. 1.

125 *Ibid*., p. 4.

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> What is needed to judge the characteristics, distribution and severity of poverty is not any single measure but a variety of income and non-income measures tailored to the particular questions at hand and to the data available.[126]

The paper proposed that the Bank should utilize relative poverty thresholds for its operations, since they avoid the 'false sense of precision' associated with absolute poverty thresholds and point to more useful differentiations of degree, rather than kind.[127] Internal scepticism regarding the ability of the Bank to quantify absolute poverty accurately seemed to urge it to consider questions surrounding inequality and distribution.

These papers point toward competing concepts of poverty within the Bank during the 1980s, and to differences in opinion regarding how they could be best utilized operationally. First, absolute poverty, the most widely used indicator, described a 'specific income level below which adequate standards of nutrition, shelter and personal amenities' could not be maintained. The difficulties in deriving these thresholds included defining both minimum nutritional requirements and the minimum standards of essential non-food expenditures. Moreover, absolute poverty income thresholds omitted other basic needs, such as access to water, health care, education, and sanitation facilities, all of which varied considerably in intra- and inter-country analysis. Second, relative poverty was defined within the Bank as one-third of national per capita personal income, adjusted for urban–rural cost of living differences. Some economists at the Bank advocated changing this definition to one-third of GDP, which would better capture the differences between countries. But because relative poverty measurements were concerned more with inequality than poverty as such, they were not as intuitively appealing for Bank policy measures as the absolute concept.[128] Indeed, this latter concern about distributional issues had historically pushed the Bank toward certain policy approaches, from the early emphasis on productivity to McNamara's promotion of absolute poverty.

Given the Bank's commitment to SAL and a technical approach to development, the views espoused in these internal papers were unlikely to gain much traction. Nevertheless, the tension between monetary poverty lines and the recognition of the multidimensionality of poverty seemed to create uncomfortable cognitive dissonance within the institution. Various ongoing internal discussions highlight the contested nature of poverty within the Bank, but also indicate which views would become suppressed in official Bank rhetoric and publications.

The 'dollar-a-day' global poverty line: completing the transition

WDR 1990 was the first official World Bank publication to take seriously the need to 'be more precise about what "poverty" really means', offering both qualitative and quantitative definitions. Qualitatively, poverty was defined 'as the inability to attain a minimal standard

126 WBA PRDF, Folder 1046757, Projects Advisory Staff, Economic Analysis and Projections Department, 'Poverty measures in the Bank', 16 May 1983, p. ii.

127 *Ibid*., pp. iii–iv.

128 *Ibid*., pp. 3–10, 13–14.

of living', this definition exhibiting some continuities with McNamara's 1973 description of poverty as the denial of basic human necessities. The report differentiated poverty from inequality as an 'absolute standard of living' rather than the 'relative living standards across the whole society'. Quantitatively, it presented two new income-based global poverty lines: an upper threshold of US$370 and a lower threshold of US$275 per year. Anyone living on an income less than US$370 was categorized as poor, while anyone living on less than US$275 was deemed extremely poor.[129] The upper threshold became known colloquially as the dollar-a-day international poverty line. In this way, *WDR 1990* departed from a biological construct in favour of a definition grounded in the economic nature of poverty. The consumption-based poverty threshold articulated in the report was comprised of two elements: 'the expenditure necessary to buy a minimum standard of nutrition and other basic necessities and a further amount that varies from country to country, reflecting the cost of participating in the everyday life of society'.[130] The global poverty line was adopted as a norm by which cross-country comparisons could be made, although the Bank admitted that it was 'inevitably somewhat arbitrary'.[131] Nevertheless, the poverty line adopted in 1990 became the most important poverty indicator in the world, and it continues to be updated.

Although the eradication of poverty seemed to diminish in importance during the 1980s, by 1990 it had once again become unequivocally central to the Bank's mission, and was wedded to its twin goal of fostering economic growth. The choice of a global poverty line was a sensible yardstick for the Bank to adopt in order to focus its work and to measure progress. Economic measures possess many advantages: numbers are 'user-friendly' for policy-makers, the data are easier and cheaper to collect, and they are more visibly responsive to change. These are technical reasons, but, more importantly, economic measurements are perceived to be more objective and rigorous, while communicating less ambiguity than non-economic indicators. Indicators of less-tangible aspects of poverty such as education, health, or disempowerment, while important, can be difficult to define and may introduce unwanted subjectivity into measurements.[132] The Bank, and mainstream development economics in general, have subscribed to the view that the ability of monetary conceptualizations of poverty to accurately count the world's poor reflects the fact that most aspects of poverty are closely correlated.[133] But by defining poverty according to a person's ability to consume and to participate in a market economy, the monetization of poverty has had significant implications for how the Bank encourages countries to tackle its eradication.

A global monetized definition of poverty has also had a universalizing effect on the policy measures promoted by the Bank. Although *WDR 1990* considered the unique experiences of a number of countries in their respective quests for growth and poverty reduction, the social and economic prescriptions advanced by the Bank could be generalized to any country. The policies promoted by the report were not targeted merely at economic growth but at a

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129 *World development report 1990*, Washington, DC: World Bank, 1990, pp. 25–9.

130 *Ibid*., p. 26.

131 *Ibid*., p. 27.

132 A. Sumner, 'Meaning versus measurement: why do "economic" indicators of poverty still predominate?', *Development in Practice*, 17, 1, 2007, pp. 8–10.

133 Kanbur and Squire, 'Evolution', p. 184.

certain kind of growth which would benefit and accrue to the poor. *WDR 1990* proposed a two-pronged strategy of increasing the productivity of the poor's labour while providing basic social services. Whereas the *WDR*s of the 1980s were almost dogmatic in their advocacy for free-market reforms, the 1990 edition also called for the provision of primary health care, family planning, nutrition, and primary education. Investment in primary health and education were seen as especially important in enhancing the poor's productive capacity by improving their ability to seize economic opportunities. Under these conditions, the report stated that economic growth would reduce poverty and that even the poorest of the poor would participate fully in growth. Thus, the report argued that there was no trade-off between policies which promote growth and those which reduce poverty. Indeed, the Bank had attempted a bridge between the emphasis on market liberalization of the 1980s and the war on poverty of the 1970s, allowing it to promote liberalization reforms strategically while supporting increased social funding to address poverty directly.[134] Social spending, however, needed to be tempered by fiscal discipline and macroeconomic adjustment, which also happened to put the poor at risk of greater deprivation as budgets for social services were tightened.[135]

Some critics have argued that excessive reliance upon measurement results in myopic, technocratic approaches to poverty which fail to recognize how it is experienced and understood by the poor.[136] Ultimately, however, the Bank is an operational institution, and its underlying conception of poverty was operationalized through monetization. Concepts such as development and poverty are difficult to define but are absolutely central to everything the Bank does. The use of monetary measures almost certainly provided some tangibility to the institution's ideas about poverty, and facilitated communication of poverty-related policy.

Conclusions

The historical rise and fall of the importance of poverty at the World Bank has been well documented, but the evolving conceptualization of poverty and other ideas deserves more attention. Projecting modern understandings of poverty onto the past work of the Bank is problematic, not only in terms of historical accuracy, but also insofar as it takes a shared understanding of what poverty is for granted. It obscures how the concept has changed over the history of the Bank, and it also distorts the dynamic history of the organizational mandate, policies, and operations, which were largely informed by how the development process and the appropriate role of this institution was framed and understood. The Bank's global poverty line did not arise out of nowhere, but was developed through a process wedded to its past. The Bank has not always been concerned with poverty, for the institutional conceptualization of poverty underwent a gradual, halting transition, such that it went from being beyond the scope of the Bank's mandate to being at its core.

There were a number of factors which influenced the initial politicization of poverty and conservative approach to development, but the Bank was not ignorant of the issue of poverty

134 Kanbur and Vines, 'World Bank', p. 100.

135 *World development report 1990*, pp. 3, 47–8.

136 R. Lister, *Poverty*, Cambridge: Polity Press, 2004, p. 7.

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during its early days, nor was it addressing poverty unawares. There was a careful distinction made between poverty eradication and development, with the former being a political consideration and the latter an issue of increasing economic growth. Yet there were also competing voices and visions within the institution regarding how poverty should be understood and addressed. The more business-minded, conservative faction of the Bank's staff emerged as dominant, before giving way to a new generation of economists and policy-makers under McNamara. During the 1980s, although the Bank presented a united front with respect to the need for adjustment, internal dissent was widespread, yet marginalized. As archival material indicates, the complexity of poverty was well known at the Bank, and its monetization universalized not only the concept of poverty but also the policy recommendations for its elimination.

There has always been a high degree of tension between the political and the technical in the World Bank's conceptualization of poverty and its operational policies. Indeed, the Bank's historical attempts to navigate political issues while maintaining a technocratic approach have been tenuous at best. The notion that poverty can be divorced from political dimensions is chimerical, for any knowledge about poverty is always ideological, and the dominant conception at the Bank is often the product of prevailing ideology. Morten Bøås and Desmond McNeill have observed that it is a common trajectory for multilateral institutions to treat political questions as technical issues, thereby controlling potential underlying political conflicts.[137]

The change in the Bank's conceptualization of poverty was gradual, but not linear, as heated debates about poverty and development were ongoing, both within the Bank and without. Needless to say, conceptions and measurements of poverty within the World Bank have not been expressions of intellectual purity. Institutional and political constraints and both internal and external power relations acted upon Bank staff to influence the final conceptual result. When *WDR 2000/2001* was published, it created controversy when pressure was applied to the research team to change its emphasis from empowering the poor toward economic growth.[138] The backlash to the report underscored the politically charged nature of the Bank's efforts to alleviate poverty, despite its tendency to frame its operations in the neutral technical-professional terms of economics. And while it is true that the World Bank has often been pilloried for its work in the development field and perceived failures of poverty alleviation, it is also true that the Bank largely applies mainstream economics to the problems and issues of development.

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137 M. Bøås and D. McNeill, *Multilateral institutions: a critical introduction*, London: Pluto Press, 2003, p. 8.

138 Wade, 'U.S. hegemony', pp. 225–9.

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