

Suite 502

1150 Seventeenth Street, N.W., Washington, D.C. 20036

Telephone: (202) 777-3000 Facsimile: (202) 777-3010

ECONOMIC NEWS UPDATE

IRWIN M. STELZER

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Bush's Choice to Head World Bank Disarms Most Critics

So there is life in the Bush administration yet. And a bit of good sense. After allowing the 10,000-person staff of the World Bank to sink Paul Wolfowitz for reasons that had less to do with Wolfowitz's girlfriend than with his support for the policy that led to the Iraq war and his attempt to clear up corruption on bank-funded projects, President Bush last week recovered his poise and resisted pressure to give up the 60-year-old prerogative of the American president to nominate the President of the World Bank.

Bob Zoellick was the man Bush wanted to name as the new head of the Bank when Jim Wolfensohn stepped down in 2005. But he needed a job for Wolfowitz, and one that did not require Senate confirmation. So Zoellick subordinated his not inconsiderable ego, agreed to accept the booby prize of second-in-command to Condi Rice at the State Department. This was destined to be an unhappy posting: Rice is an international celebrity, and whenever Zoellick substituted for her at

meetings, he faced an unmistakable sense of disappointment from a room full of foreign negotiators cheated out of a much-lusted-after photo-op with the attractive, female, black, American Secretary of State.

Now that Zoellick has finally gotten the opportunity to run his own show, after a stint at Goldman Sachs, what can we expect? He is well known for two things: a sharp intelligence, and even sharper elbows. The first is certainly accurate, the second less so. Zoellick can be a tough-minded negotiator, but I have always found him courteous when we disagree, willing to engage in serious argument. And Zoellick's ability to match the staff in intellectual weight and international contacts will make it difficult for these highly paid, tax-exempt men and women to justify continuing the vendetta that brought down Wolfowitz. But they will try: a senior bank official rushed to tell the Washington Post, "Zoellick is from the same people who brought you the

Iraq war.... Any American appointed by this President would carry that stigma.”

More important than this infighting is the question of policy. The Bank is on the verge of irrelevance. In this era of massive private philanthropy and cheap money, everyone from Bill Gates, to China, to private lenders is making funds available to many of the Bank’s potential clients, no annoying reform requirements attached; a significant portion of World Bank loans are said to have ended up in Swiss bank accounts; the large projects the Bank has funded often are low on the list of real needs of the people in client countries, who prefer clean water to roads to nowhere; its preference for massive government projects flies in the face of what we have learned from Hernando De Soto about the key role of private property rights, and about the effectiveness of microfinance from Muhammed Yunus, the Bangladeshi banker who won the Nobel Peace Prize and Amartya Sen, the Harvard professor who was awarded the Noble Prize for economics.

In conferences with Treasury Secretary Paulson when Zoellick was just one on a list of candidates, Bush’s nominee laid out plans to carve out a role for the World Bank that recognizes that the world has changed since it was established in 1944 to cope with the problems of a war-ravaged world. The basic goal of the Bank’s two institutions -- the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) -- is to relieve poverty in poor but nevertheless credit-worthy countries (IBRD), and in the world’s poorest countries (IDA).

Zoellick brings to that task a firm belief in free markets. He is keenly

aware that government intervention often does more harm than good. He recently minuted me, after I flirted with expanding the role of government in economic life, “Consider how Soviet economic planning was considered such a ‘success’ for so long.” The role of government, he thinks, is to set the macroeconomic conditions that maximize growth, productivity, education, and research and development.

Which belief is a potential source of conflict with the Bank’s staff and some of its clients, who have grander visions of the role of government. If Zoellick is not captured by the Bank’s culture -- its Washington staff is encased in a stunning glass building that for some strange reason encourages neither outward-looking nor transparency -- he will insist that countries that want loans move in the direction of freer markets. Reform first; loans later.

Zoellick’s goal will be unvarying; the route flexible. When he was United States Trade Representative and couldn’t get America’s trading partners to agree to the comprehensive Doha free-trade agreement that he was instrumental in starting, he cut bilateral deals with countries that saw it advantageous to open their markets in return for reciprocity from the US. These deals offended the sensibilities of academic purists, and for good reason: they are not as efficiency-creating as global arrangements. But they put recalcitrant countries on notice that the freer trade train was leaving the station, and that they would do better to get on board than to wave access to the huge American market goodbye.

Perhaps most important, more important even than Zoellick’s effort to

find a role for the Bank in today's world -
- if indeed such a role exists -- is that President Bush has reminded his critics that he still occupies the Oval Office, and is not so weakened that he has to pander to his international critics by giving up one of the important powers he has: the power to make key appointments. The Financial Times finds that offensive, and is urging the Bank's board to ignore American insistence "on their outdated *droit de seigneur*", and make its own determination of Zoellick's managerial and technical competence, and "whether he will be able to make the shift from devoted proponent of US interests to trusted servant of the global interest."

Meanwhile, if you need any renewed belief in the old adage, "If you want loyalty, buy a dog," consider the pages of *Der Spiegel*. Recall: Zoellick was awarded the Federal Cross of Merit, Germany's distinguished honorary badge, for his contribution to the reunification of Germany, a fact *Der Spiegel* points out, but only before dismissing Zoellick as "an idealist" who accepts the neoconservative goal of US global supremacy and who, horrors, has written that "there is still evil in the world."

The board can, of course, reject Zoellick, as some of its members are hoping it will, but only if it wants to trigger the withdrawal of full-hearted US support for the institution just as it launches a \$30 billion fund-raising drive.



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