Not a Knowledge Bank: The Divided History of Development Economics and Development Organizations

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Development economics was born as a distinct disciplinary field in the aftermath of World War II, when the development of so-called Third World countries, due to the dynamics of decolonization and the Cold War, became an international priority. At the institutional level, the birth of development economics was paralleled by the reorientation of the International Bank for Reconstruction and Development (so-called the World Bank) from the support of European reconstruction to funding development policies worldwide. Not surprisingly, the paths of the Bank and of pioneers of development economics often crossed, and it is fair to say that the Bank and the new discipline—from the perspective of the history and sociology of social sciences—are part of the same story. Indeed, one would think that the Bank was the natural place for the breeding of development economics. This seems coherent with the image we have of the Bank today: the reign of economists. Yet, for most of the years when development theory was shaped, the Bank, although very active in development policies worldwide, was remarkably silent in the field of development economics. This paper will connect the study of economic ideas and economists in international organizations with the history of economic policies. Based on previously untapped archival sources, it will discuss how the history of development economics and of development organizations—and especially the largest among them, that is, the World Bank—proceeded separated for a long stretch of time, and how they later converged.

> For social scientists it is a sobering and useful exercise in self-understanding to attempt to see clearly how the direction of our scientific exertions, particularly in economics, is conditioned by the society in which we live, and most directly by the political climate.... The cue to the continual reorientation of our work has normally come from the sphere of politics; responding to that cue, students turn to research on issues that have attained political importance. Theories are launched, data collected, and the literature on the "new" problems expand.
>
> Gunnar Myrdal, *Asian Drama: An Inquiry into the Poverty of Nations*

Gunnar Myrdal's quotation describes well what happened in the aftermath of World War II, when the development of the so-called Third World countries, due to the dynamics of decolonization and the Cold War, became an international priority. This political and very practical input left an important mark on the newborn discipline, and the field experience of economists and practitioners produced that distinct blend of theory and empiricism that is typical of development economics (Chenery 1992: 381). At the institutional level, the birth of development economics was paralleled by the reorientation of the International Bank for Reconstruction and Development—better known as the World Bank—from the support of European reconstruction to

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funding development policies worldwide.[1] Not surprisingly, the paths of the Bank and of the pioneers of the new discipline often crossed, and it is fair to say that the Bank and the new discipline—from the perspective of the history and sociology of social sciences—are part of the same story.

Indeed, one would think that the Bank was the natural place for the breeding of development economics. In the first place, it quickly became the largest international organization devoted to foster development in the underdeveloped world, and second, it had a lively Economic Department that was an important actor in the decision-making process at the Bank. This seems coherent with the image we have of the Bank today: The reign of economists, endowed with resources for economic research that, in the words of two Bank insiders, would "dwarf those of any university department or research institution working on development economics" (Stern and Ferreira 1997: 524). Yet, for most of the years when development theory was shaped and advanced, the Bank, although very active in development policies worldwide, was remarkably silent in the field of development economics.

At a closer look, for many years the World Bank was distinctly separated from development economics. The Bank's Economic Department, after a lively and stimulating beginning—or, perhaps, *because* of its lively and stimulating beginning—was marginalized and then suppressed. For almost 15 years, the Bank's competence shifted primarily to engineering, especially from 1952, when the Technical Operations Department was created (Mason and Asher 1973: 74–78). Economists were granted no more than an ancillary position, and only from the mid-1960s their role increased in relevance. Andrew Kamarck, the director of the Economic Department during the presidency of George Woods (1963–68), stated that only in the mid-1960s economists received "for the first time, equal weight in the lending process with loan officers and project analysts" (Kamarck 1995: xii). But it was only the transformation of the Bank into a development agency focused on poverty eradication during McNamara's presidency (1968–81) that sanctioned the central role of the economists: "[T]his focus brought with it a still greater stress on the economywide view, a broadening of perspectives on what constituted development, and generally an openness concerning the kinds of tools and policies to be examined and supported" (Stern and Ferreira 1997: 534).

Far from being a mere organizational matter, the disappearance of economists as an identifiable professional group from the organization chart of the Bank was the symptom of a shift in the Bank's approach to development issues, and it had lasting repercussions. Economists fulfilled a research role: They provided the Bank with analyses of the economic, financial, and industrial conditions of developing countries; prepared scenarios; and designed and recommended lending schemes. Moreover, the Economic Department was a core player in the Bank's decision-making process and had a veto power over lending decisions. Its disappearance in the 1952 reorganization

1. Another reason that pushed the Bank into the new field of development was the United States' decision to directly support the European reconstruction through the Marshall Plan. The resources of the Marshall Plan were far higher than those available to the World Bank.

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meant not only the victory of other professional groups, namely financial officers and engineers, but also the virtual elimination of a research and policy analysis function. The World Bank streamlined its own decision-making process and set on a path of organizational and financial growth. In doing so, however, it dropped perhaps its most creative department.

The case of the rise, fall, and rebirth of the World Bank's Economic Department speaks to various analytical approaches. On one side, it may interest business historians and evolutionary economists, as it is a clear example of the relationship between strategy and structure within a corporate environment. Alfred Chandler, as it is well known, studied organizational innovation as a way to meet the administrative demands of new managerial strategies, supposedly better fitted to the changing business environment. As Chandler put it, "[S]trategic growth resulted from an awareness of the opportunities and needs... to employ existing or expanding resources more profitably. A new strategy required a new or at least refashioned structure if the enlarged enterprise was to be operated efficiently" (Chandler 1962: 15). However, I distance myself from Chandlerian analyses of the Bank's reorganizations (e.g., Galambos and Milobsky 1995a, 1995b), because I give a more prominent role to the cultural and political reasons underlying the elimination of the Economic Department. My major point of departure from a Chandlerian perspective is that I don't see the "efficiency" rationale as a really propulsive force behind my story. The Bank was not less efficient when the Economic Department was in service and, in fact, several officers opposed the 1952 reorganization as a threat to the organization's functioning well. The strategic choice was taken not on the ground of efficiency, but on the basis of what kind of development institution the top officers had in mind. In evolutionary terms, the clash of visions that emerged prompted a transformation primarily based on cultural and ideological grounds, not on any efficiency-driven or maximizing strategy. This specific process, also, explains why the World Bank was devoid of intellectual initiative when, in the 1960s, its approach to development lending was criticized as outdated or too narrow. The story of the World Bank's Economic Department can thus be seen as a study in the changes of the Bank's corporate culture.

More broadly, however, this story is a chapter in the history of development economics as a social science, connecting the study of economic ideas and economists in international organizations with the history of economic policies. Pioneering work on the role of economists in international organizations was pursued by Bob Coats in two edited volumes, *Economists in International Agencies: An Exploratory Study* (1986), and *The Post-1945 Internationalization of Economics* (1996). These books, together with a volume on the role of economists in national governments (Coats 1981), constituted an attempt to "open up a new field of comparative social science research—the systematic analysis of the activities and influence of professional economists in the modern (i.e. post-1945) world" (Coats 1986: vii).[2] More recent efforts are a study on economic policy analysis in four international organizations between 1919 and 1950

2. The shift from the national to the international arena seems to be a natural development for such studies: Pechman (1989), e.g., surveys the role of economists in 10 nations and five international organizations.

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by Endres and Fleming (2002),[3] the multivolume intellectual history of the United Nations (e.g., Emmerij et al. 2001; Jolly et al. 2004; Stokke 2009; Toye and Toye 2004; and Ward 2004), Murphy's history of the UN Development Programme (2006), and Maul's history of the International Labour Organization (ILO) (2012). Besides these few exceptions, however, archival research on these topics is only in its infancy.[4] In addition, studies on international economic organizations often tend to observe them in their entirety, with no specific focus on their various departments and, for what it matters, the role of economists. The authors of the first quasiofficial history of the World Bank, for example, wrote:

> To speak of the views of the Bank or Bank Group at any stage in this evolution is, of course, to ignore, or at least to minimize, the differences of views that have always existed among individual directors, and within the management and staff of the Bank. The Bank has never been a monolithic institution.... Nevertheless, there has been and is a set of views that may fairly be said to characterize the thinking of Bank representatives at different points in time on how development comes about and how it can be assisted. (Mason and Asher 1973: 457)

This perspective is obviously particularly appreciated by the senior management. In a public event, for instance, a World Bank top officer claimed: "Our policies reflect the deliberations of a collective mind, so to speak, in the Bank's management and its Board of Directors."[5]

As unquestionable as these statements are, this paper will adopt an opposite perspective, which will magnify, rather than minimize, the views of the Bank's economists, and the ways they participated in the policy- and decision-making processes. The events of the early 1950s provide a very interesting case study because of the Bank's still relatively flexible structure, and because of the interactions between Bank's economists and other groups—mainly the senior management—within the institution. In the words of Bob Coats,

> Especially during its early life an international agency, like any other new organization, may benefit from its employees' enthusiasm and pragmatism, and they may revel in the loose, unstructured character of the decision-making and institution-building processes.... But with the passage of time the initial excitement tends to

3. The organizations considered are the League of Nations, the United Nations, the International Labor Organization, and the Bank for International Settlements.

4. Important analyses of the economic profession with a national focus are, e.g., Bernstein (2001), Fourcade (2009), and Mata and Medema (2013). As far as development economics is concerned, studies connecting the analytical, institutional, and sociological dimensions of this discipline have been proposed, e.g., by Bianchi (2011) and Boianovsky (2010). On the World Bank, reference works are Baldwin (1986); de Vries (1996); Goode and Kamarck (1989); Stern and Ferreira (1997); and Broad (2006). Yet, with the partial exception of Broad, all these articles offer introductory analyses, in some cases sidetracked with personal memoires. Together with Broad, they are more focused on current issues rather than history (but Stern and Ferreira offer a historical analysis of the 1977–97 period), and especially Broad's and Stern and Ferreira's analyses are influenced by contemporary debates.

5. "Statement made by Mr. J. Burke Knapp, representative of the International Bank for Reconstruction and Development, at the three hundred and eighty-fifth meeting of the Economic and Social Council," Geneva, July 12, 1950: 2, WB IBRD/IDA 43-08, Rist files, Series 1, Box 4, A90230 [henceforth RIST], World Bank Group Archives [henceforth WBGA].

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> wane; the opportunities for the exercise of creative imagination diminish, and expectations are adjusted downwards; procedures become more routinized, the organization more formal and hierarchical, and its structure more rigid. (Coats 1986: 9)

Based on previously untapped archival sources, this paper will examine a particularly important phase of the early institution-building process at the Bank; it will describe the shaping of a particular mind-set toward policy issues that distinguished the Bank's Economic Department from other departments and from the Bank's management, and the progressive irreconcilability between economists and top management, due to different visions on what the Bank could and ought to do. This will help reflect on how the history of development economics and of development organizations—and especially the largest among them, that is, the World Bank—proceeded separated for a long stretch of time, and how they later converged.

The Birth of the World Bank's Economic Department

The first president of the World Bank, Eugene Meyer, held the position for only six months, from June to December 1946. Although he did not supervise any Bank operation—the first loan would be granted only in 1947—Meyer was central in the delicate mission of shaping the Bank's organizational structure. By the end of his mandate, Meyer had established four core departments: legal, operations, research, and treasurer (Kraske et al. 1996: 24–25). The Legal Department and the Treasurer Department would offer the framework and the instruments for the Bank to be operational. Operations would manage the implementation of loans and was subsequently renamed the Loan Department. Leonard Rist, a French investment Banker with international and American experience, was hired to organize and chair the Bank's Research Department, later renamed the Economic Department.[6]

Rist undertook a comparative study of the research departments of the International Monetary Fund (IMF) and several US governmental agencies, including the departments of Commerce and Treasury, the Bureau of the Budget, the Federal Reserve (the Fed), and the Chamber of Commerce of the United States.[7] Based on this study, and especially on the deep differences between the Bank and the fund—despite their being considered as twin organizations—Rist envisaged a strong research department as a fundamental basis for the Bank staff's independence. As Rist saw it, the fund's

6. Leonard Rist was the son of renowned French economist Charles Rist. After studying in Paris, in the early 1930s Leonard Rist moved to New York. There, he was a trainee in Banking with Blair and Company, where he met Jean Monnet, who was one of the partners. Rist subsequently worked for Morgan's until 1945. After the end of World War II he entered the French civil service and represented the French Treasury in several international meetings. In April 1946 he was appointed by the French government to the World Bank as alternate executive director to Mr. Mendes France. In August, he was asked by Mr. Meyer to join the staff of the Bank, and became the first director of the Research Department; Oral History Interview, Leonard Rist, July 19, 1961, 01 Columbia University project, WB IBRD/IDA 44 Oral histories: 1-4 [henceforth ORALHIST].

7. The World Bank Archives hold some of the correspondence between Rist's assistant, Ms. de St. Sauveur, and the various agencies. A final report summarizes the findings: "Report," Miss Cathala de St. Sauveur to Mr. Leonard B. Rist, August 20, 1946, RIST.

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executive directors conceived their institution as a permanent international monetary conference on short-term balance adjustments: The fund's executive directors were representatives of their constituencies, and the staff merely supported the board's deliberations. On the contrary, the Bank was supposed to deal with long-term investments that excluded a direct role of the Bank's executive directors, lest the Bank would become unmanageable. As Rist later put it, "[W]ithout any consultation and just by instinct, we not only accepted but proclaimed the indispensable need for a strong self-willed management;... the President would be the main negotiator and he could use whichever agents he wanted."[8]

As regards the relationship among departments, Rist opted instead for replicating the division of labor between the Operations and Research departments that existed at the fund: The Research Department would be concerned with policy decisions and the analysis of the effects of policies on the economic outlook of specific countries or regions, while the Operations Department would focus on the execution of policies.[9] To emphasize the role of his department, Rist proposed that it should monitor the areas of politics, economics, and finance worldwide, and, above all, "set up inquiries and suggest judgments and opinions on the merits of any or all loan applications," while giving the Bank's president and senior management background information and advice "on almost any policy issue."[10] A small group of first-class international researchers would thus acquire a key role at the core of the Bank's flows of information. They would catalyze and elaborate fundamental information for the decision-making process on loan activities.[11]

Not unexpectedly, Rist's vision kindled a long-lasting dispute between the Research Department and the Loan Department on their core responsibilities. The Loan Department considered policy-making analysis its own domain, with the Research Department in a merely supporting role as data collector. Rist opposed this view, and in early 1948 symbolically changed his department's name from the Research to the Economic Department. Rist, whose native language was French, remembered: "I discovered that research in English may mean that you collected statistics and don't interpret them yourself, which is one thing I didn't want to do."[12]

The Early Life of Economic Research at the World Bank, 1947–52

One of the first issues that the Bank needed to address was the establishment of member countries' creditworthiness, which in turn was considered as directly affecting the Bank's own creditworthiness. Especially in the early years, when the Bank had only

8. ORALHIST, Leonard Rist, July 19, 1961: 7.
9. "The International Monetary Fund," no author, no data, RIST.
10. "Memorandum," Mr. Leonard B. Rist to Mr. Eugene Meyer, July 23, 1946, RIST.
11. "Memorandum—Organization of Research Department," Leonard B. Rist to Harold D. Smith, October 3rd, 1946, Organization—Economic Department General, 1947–1964, Central Files, Fonds 2, WBGA [henceforth ORGANIZATION]; "Elaboration of a project of statistic documentation," J. Torfs to Mr. Rist, October 22nd, 1946, ORGANIZATION.
12. ORALHIST, Leonard Rist, July 19, 1961: 16.

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limited resources and was regarded with diffidence by private and public investors, this was, quite understandably, an open nerve. The measure of creditworthiness most commonly used was the so-called debt service ratio, that is, the proportion of a country's earnings from exports absorbed by payments for interests and principal on public foreign debt. As a senior Bank official later summarized, the strong statistical basis of this index made it reliable and easy to apply (Avramovic et al. 1964: 38). More fundamentally, this ratio addressed in a straightforward way the, perhaps, most debated questions in early development economics, that is, the rate of capital accumulation necessary to trigger self-sustained growth, and its usual companion discussion, that is, the financial gap between savings and investments and access to hard currencies, that is, dollars. Creditworthiness as a function of a country's balance of payments was a natural extension of those discussions: "Foreign exchange is one of the scarcest, if not the most scarce, inputs for the developing debtor countries both over the short-run and over a longer period. The debt service is a continuing charge against this scarce resource. It is an indicator, if again an incomplete one, of the strength of the temptation to default" (ibid.: 42).

In the early 1950s, however, the Economic Department was increasingly criticizing this approach to creditworthiness. First, it observed that the debt service ratio was too limited a concept to gauge the actual economic and financial conditions of a country, as it focused more on cash flows than on productivity. Leonard Rist recalled that that ratio reminded him of "the prospectuses of bond issues in the 1920s: foreign trade, main exports, main imports, foreign debt, budget and monetary set-up," but it did not consider other and perhaps more important aspects related to the policy options and government strategies of a country, such as its monetary policy.[13] The Loan Department advanced further criticisms. Its head, William Iliff, shared Rist's concern with the rigidity of the ratio: "so far as creditworthiness is concerned," Iliff pointed out, "I don't think... that you can reach an absolutely rigid formula—for example that x percent relationship between x external debt service and foreign exchange earnings... should be an absolutely rigorous criterion." Other questions should be considered, regarding the debt record of a country and its administrative, managerial, and technical abilities: "[O]ne country may be able to absorb 100 million, another country may not be able to absorb 5 or 10."[14]

Economists and loan officers also criticized other assumptions that lay beneath the use of the debt service ratio. Paul Rosenstein-Rodan, arguably the most talented economist at the Bank in those years, disagreed with the idea that creditworthiness should be calculated as the ability to meet both interests and principal, and that a country should naturally move toward zero indebtedness. Instead, the Bank should assess what level of foreign indebtedness a country could maintain in the long run. True, the risk would exist that the debt service ratio may become unsustainable: In a scenario of expanding international capital flows, slow growth of international demand for primary products, and weak export ability of the borrowing countries, debt

13. ORALHIST, Leonard Rist, July 19, 1961: 16.
14. ORALHIST, Sir William Iliff, August 12, 1961: 23–25.

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service might well increase quickly. Furthermore, shifts in the composition of imports of developing countries, due to their process of industrialization, might aggravate pressures on the balance of payments. (For a synthesis of these debates, see Avramovic and Gulhati 1958 and Avramovic et al. 1964.) Still, Rosenstein-Rodan pointed out that the Bank should consider a country's many consecutive loans "as if they were a long-run revolving fund."[15] Rosenstein-Rodan's position was remarkably similar to Keynes's arguments in favor of a loan-financed rearmament plan in Great Britain in the years immediately preceding World War II: The funds would be supplied "by the Banking system from a 'revolving fund' as the loans for projected investments are paid out of repayments to the Banks for completed ones"(quoted in in Skidelsky (2001: 23).

This approach was shared by the board of governors of the Federal Reserve System. A Federal Reserve internal memorandum on the lending policy of the World Bank stated that "in judging the credit-worthiness of countries as prospective borrowers..., demonstration of 'ability to service' should, wherever necessary, mean primarily a demonstration that the country's balance of payments is likely to show a sufficiently large surplus on current account during the life of the loan to be able to pay *interest* on the loan in question, rather than, in all cases, interest *and amortization*."[16] The memorandum added that this approach was common view in the United States: Lending practices in the United States regarded railroads and public utility enterprises as financially sound when their earnings provided for amortization payments as well as for interest on debt and dividends on the investment; but it was not expected that railroads enterprises would show profits substantial enough to permit the repayment of interest *and* principal. On the contrary, "*refunding* is regarded as a normal part of the financing operation, without any suggestion that the soundness of the loan is thereby jeopardized."[17] Moreover, according to the Fed, the Bank's insistence on a country's payment of both interest and amortization implicitly assumed that borrowing countries should be able to earn from international trade sufficient resources to repay capital on the many loans made in US dollars. But this was either impracticable or, worse, an unpromising perspective, as it meant that the United States would afford a much larger trade deficit.

The Fed memorandum was transmitted to the Bank president Eugene Black, but it did not succeed in changing the attitude of the Bank's leadership, and the debt service ratio survived as one of the Bank's main analytical instruments.[18] In part, this was due to the lack of alternative indicators. Yet, an ideological factor was also important: "As far as the Bank's management was concerned," Mason and Asher wrote, "debts were debts, and a conception of international lending that was based on anything other than their full repayment seemed immoral. Creditworthiness, according to the

15. ORALHIST, Paul Rosenstein-Rodan, August 14, 1961: 37.

16. Board of Governors of the Federal Reserve System, "The lending policies of the International Bank re-examined," May 11, 1950: 3, emphasis in the original, RIST.

17. Board of Governors of the Federal Reserve System, "The lending policies of the International Bank re-examined": 18, emphasis in the original.

18. M. S. Szymczak to Mr. Eugene Black, May 29, 1950, RIST.

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management, should be judged by conservative standards" (Mason and Asher 1973: 181).

In sum, starting in the late 1940s and continuing well into the 1960s, two approaches to creditworthiness could be found within the Bank. One, supported by the top management, assessed the creditworthiness of a country on its ability to pay and eventually get rid of its own debts. Another one, supported especially by the Economic Department, focused instead on creditworthiness as the ability of a country to productively use foreign aid. If in principle the two positions were far apart, in fact the divide between them was bridged by a proposal, prepared by the Economic Department, according to which a balance of payments in good health and active growth policies were part of the same strategy. In its loan strategies for countries as diverse as Italy and Brazil, for example, the Bank supported the balance of payment of the recipient countries in coordination with the implementation of infrastructural and industrial investments plans.[19]

Besides the question of which countries were eligible for lending—that is, the creditworthiness issue discussed in the preceding text—another important question was how to effectively address the financial needs of borrowing countries. According to the Bank's Articles of Agreement (Art. IV, 3, a), the Bank was supposed to lend in currencies other than the ones of the receiving countries, and specifically only the foreign exchange costs directly attributable to a specific project. In practice, this meant that for several years the Bank disbursed loans in dollars aimed at the purchasing of equipment in the United States. The Articles of Agreement, however, specified that "in exceptional circumstances" the Bank may provide the borrower either with local currency, or with currency not directly necessary to the project, in those cases when the increased need for foreign exchange was generated by the implementation of the project (Art. IV, 3, b and c).

In practical terms, the two cases amounted to the same thing, that is, a transfer of foreign exchange in excess of the sum strictly required by a specific project, in order to strengthen a country's balance of payments. As Mason and Asher succinctly put it, "The local expenditure lending that *is* important is that which provides foreign exchange in excess of the quantity needed to finance the import requirements of a project" (Mason and Asher 1973: 263, emphasis in the original). Indeed, the two mechanisms looked very similar. In one case the Bank would finance the foreign exchange costs of a specific project, but would also provide additional foreign exchange to counteract the disequilibrium that the investment might cause on the balance of payments of the borrowing country. This was the so-called impact loan, meant to finance the impact of a domestic investment program on a country's balance of payments. Upon receiving this impact loan in foreign exchange, the borrowing country would open a counterpart fund in local currency to cover a portion of the costs of the

19. See, e.g., IBRD, "Report of the Italian Working Party on the program for the development of Southern Italy and possible method of Bank financing," July 27, 1950; IBRD, "External credit of Brazil," May 6, 1949. This focus remained consistent across time and regions: see, e.g., IBRD, Department of Operations, Europe, Africa and Australia, "Current economic developments and creditworthiness of Yugoslavia," January 30, 1953, EA-5a.

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domestic investment. In the second case—the "local currency loan" proper—the Bank would cover a portion of the local currency expenditure on the project by acquiring local currency with foreign exchange; the borrowing country, in this case, would use the "foreign exchange counterpart" to mitigate the project's impact on its balance of payments.[20] The main difference laid in the pattern of disbursements, as impact loans were not linked to specific projects, while local currency loans were. In both cases, however, the result was the creation of a local currency counterpart and additional resources for the balance of payments.

The similarity of these loan schemes, and especially of the impact loans, with the counterpart funds in local currency of the Marshall Plan was not casual. Actually, the Marshall Plan's experiment exerted a strong influence on the Bank. According to Paul Rosenstein-Rodan, "[T]o the Bank the Marshall Plan exercise was a very important training," and it clearly inspired further thinking by the Bank's economic staff on possible lending patterns, as for instance during the negotiations that led to the first two loans to Italy in 1951 and 1953.[21] Italy had the local currency needed to undertake a program of infrastructural and industrial investments, but it was wanting of foreign exchange. The additional income generated by the investment program would put the balance of payments under pressure. In the scheme drafted by the Bank's Economic Department, the Bank would make a loan specifically aimed at financing "the impact of an investment program which the Italian government undertakes."[22] The analysis of the Economic Department had an echo in the *Fifth Annual Report* of the Bank. This document acknowledged that "foreign exchange requirements indirectly resulting from expenditures in local currency" could arise (IBRD 1950a: 10). In such case, the report justified any loan from the Bank insofar as it was aimed at supporting a country during a period of expansion or at removing or containing inflationary pressures.

In parallel to the negotiations on the Italian loan, the Economic Department was applying the same scheme to another potentially much larger case. As an answer to the shortage of low-income houses that characterized many countries in the world and as a measure to raise employment rates after World War II, in 1949 the ILO contacted the World Bank to discuss the establishment of an International Institute for Building Loans, which would tap savings in the United States to finance low-income housing projects elsewhere.[23] Obviously there would be a discrepancy between the funds tapped by the Bank, which would be in dollars, and the investment needs for housing constructions in low-income countries, mainly in local currency. The Economic Department, however, did not consider this a problem: The foreign currency would have helped "absorb the inflationary pressure created by increased construction

20. "Statement made by Mr. J. Burke Knapp, representative of the International Bank for Reconstruction and Development, at the three hundred and eighty-fifth meeting of the Economic and Social Council," Geneva, July 12, 1950: 5, RIST.

21. ORALHIST, Paul Rosenstein-Rodan, August 14, 1961: 2–4.

22. ORALHIST, Paul Rosenstein-Rodan, August 14, 1961: 14.

23. ILO Building, Civil Engineering and Public Works Committee, "Report of the Subcommitteeon Instability of Employment," Rome, March 16–25, 1949; David A. Morse to Eugene R. Black, August 12, 1949, Housing and Urban Development, Vol. 1, Central Files, Fonds 2, WBGA [henceforth HOUSING].

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activity."[24] As an important "side effect," the Economic Department also noted that this scheme, besides supporting the balance of payments, would directly affect the living conditions of the population. Moreover, it calculated that in certain cases the shortage of houses was so acute to directly affect the productivity of the industrial sector of a country.

Once again, the Bank's Economic Department found receptive ears within the Federal Reserve. According to the Fed, local currency loans, when aimed at tackling inflationary pressures, could help a country service its loans:

> [T]he most important danger to a country's balance of payments position is the development of *inflationary conditions* within the country.... Since the principal justification of international local currency loans is that such loans help the borrowing country to avoid the internal inflation and the deterioration of the reserve position that might otherwise result from internal local currency financing, local currency loans... could make part of an over-all anti-inflationary program which would actually provide greater assurance to the lender than would a non-local-currency loan granted without regard to the inflationary developments that might result from an attempt to raise all of the required local currency internally.[25]

The Federal Reserve considered this issue of paramount importance, and it went as far as to propose that the Bank modify its Articles of Agreements, so that local currency loans, instead of being considered only in "exceptional circumstances," become part of the standard practices of the Bank. As a second best, the Fed insisted that at least the Bank's management do not interpret restrictively the reference to "exceptional circumstances," eliminating if not in principle any restrictive connotation.

The Bank went in the opposite direction, and impact loans remained an exception to Bank's lending policies. They were accepted only in a handful of cases (Italy, Australia, Belgium and Belgian Congo, Iran, and Norway) and with the smallest possible publicity. The Housing Institute never saw the light. As the president of the Bank, Eugene Black, emphasized in his reply to the ILO's proposal, the Bank would have strictly adhered to the principle that its loans be in foreign currency and devoted to imports related to specific projects.[26] Expenditures in local currency found no place in the loan agenda of the Bank.

A broad pattern emerges from the thick fabric of these internal debates. The World Bank top management insisted on financing specific projects, ignoring the macroeconomic vision proposed by the Economic Department. From a different and often opposite perspective, the Economic Department pointed out several reasons to explain why an exclusive focus on single, specific projects, was insufficient. First, as already discussed, the Bank should broaden its focus to take into consideration the impact of its loans on the balance of payments of the borrowing country. Second, there

24. Svend Andersen, Economic Department, General Studies, "An International Institute for Building Loans," August 26, 1949, HOUSING.

25. Board of Governors of the Federal Reserve System, "The lending policies of the International Bank re-examined," May 11, 1950: 10, emphasis in the original, RIST.

26. Eugene R. Black to David A. Morse, December 13, 1949, HOUSING.

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was a fungibility problem, for granting a loan to a specific project was considered chimerical: Single-project loans would end up financing the *marginal* project that the borrowing country would have abandoned had it not obtained credit from the Bank.[27] Third, many insisted on the complementarities that made loans for specific industrial projects useless. One of the most prominent advocates of this view was Paul Rosenstein-Rodan. In a 1943 article, Rosenstein-Rodan had made the case for looking at the industrial sector of a country "like one huge firm or trust" (Rosenstein-Rodan 1943: 204) and committing resources for an intense industrializing effort in a limited span of time—an approach later dubbed "big push." Although this approach was far from commanding a general agreement, also its critics recognized that it was becoming the orthodox view in development economics. Many economists in the Bank underscored the need to take complementarities into account (e.g., IBRD 1950b, 1952), but while this view was becoming increasingly common in the development debate, within the Bank it was marginalized.

A final episode shows the intellectual entrepreneurship of the Economic Department in those early years. In 1952, Bank's economists proposed to establish an Institute of Advanced Studies in the Economic Development of Underdeveloped Countries. The economists at the Bank recognized that they were opening new ground in the study of development issues, and they felt they were an avant-garde of the new discipline of development economics. The initial outline emphasized the idea that the new institute should have a high-level academic profile. This was particularly innovative, as in those years there was still no formal academic curriculum in development economics: John K. Galbraith would teach the first seminar in development at Harvard only in 1955; Edward Mason joined him later, while at Stanford Paul Baran and Hollis Chenery (who, 20 years later, would become the chief economist of the Bank under McNamara) taught their first courses only in the second half of the 1950s (Chenery 1992). The internal discussion ignited by this proposal was intense, but the top management rejected the idea that the Bank should devote energies to economic research. Eventually, the Economic Development Institute (EDI) that saw the light in 1955 was not conceived to become a center of cutting-edge research but a training center for state bureaucrats from less developed countries.

The World Bank and Development Economics: A Short-Lived Marriage

The preceding discussion shows that the Economic Department took its early mandate to intervene in "almost any policy issue" seriously.[28] The department contributed to discussions on the creditworthiness of member countries, on loan disbursement schemes (foreign exchange for specific projects, local currency loans, and impact loans), on the purpose of the loans (loans for directly productive activities and loans

27. This point was also raised by the Fed's report cited earlier: Board of Governors of the Federal Reserve System, "The lending policies of the International Bank re-examined," May 11, 1950, RIST.
28. "Memorandum," Mr. Leonard B. Rist to Mr. Eugene Meyer, July 23, 1946, RIST.

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that would directly affect the living standards of local populations), and on the scope of Bank intervention (project loans or program loans). In all these cases, the Economic Department showed a high degree of initiative and flexibility in interpreting the Bank's mandate and Articles of Agreements based on country-specific analysis.

Perhaps paradoxically, this high degree of flexibility was facilitated by the Cold War context of those years. Many prospective borrowing countries had either just emerged from the unprecedented destruction of World War II, or were "backward" territories—often politically very young and economically vulnerable—that were trying to emancipate from the former imperial system. The Economic Department understood the needs of those areas: It took into account economic and social issues, recommended monetary and industrial policies, designed loans that did not discriminate between local and foreign currency, and supported both specific projects and the countries' balance of payments. Economists participating in the Bank's missions to developing countries reinforced this perspective, as their direct knowledge of local conditions influenced their policy recommendations and especially their propensity to connect economic, monetary, and social issues.

These considerations also help explain the convergence, highlighted previously, between the views of the Bank's Economic Department and the board of the Federal Reserve of the United States. Since the war years, the Federal Reserve had been redefining its foreign advising on monetary matters. Under the influence of the chief of its Latin American section, Robert Triffin, the Fed abandoned the orthodox, Kemmerer-style approach that had characterized its monetary advice until the 1930s. Instead, it prompted less developed countries like Paraguay, Ethiopia, Guatemala, Korea, and Ceylon to establish institutions that would actively foster domestic economic growth, the rise of industrial and agricultural productivity, and the formation of national markets, thus mixing domestic activism with the safeguard of open international economic relations (Alacevich and Asso 2009a, 2009b; Helleiner 2003). The Fed endorsed policies that actively supported the balance of payments of developing countries, like those advocated by the World Bank's Economic Department; it also agreed with the recommendations of the Bank's Economic Department on how to assess a country's ability to service foreign debt.

The Bank's internal environment also contributed, for a few years, to the creativity and innovation spearheaded by the Economic Department: The Bank was still a new organization, which created favorable conditions for internal debate among supporters of different policies. Moreover, the Bank was also addressing issues that in principle fell within the competencies of its twin organization, the IMF, as the fund had had a very slow and ineffective start, and until the mid-1950s was unable to gain a firm control of international monetary relations (Kindleberger 1951).[29] These challenges not only favored, but indeed required creativity and innovative economic thinking.

Unlike the Economic Department, the scope of the Loan Department—the other World Bank entity with approval and veto power on loans—was somewhat more mechanic as it focused on disbursement mechanisms, monitoring, and debt repay-

29. See ORALHIST, Leonard Rist, July 19, 1961.

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ment by borrowing countries. As we have seen, this did not limit its ability to think broadly, as the discussion surrounding the concept of creditworthiness has shown. This notwithstanding, the Economic Department and the Loan Department never worked well together. The role of the Economic Department in the Bank's decision making on lending soon caused frictions, which eventually exploded in a turf battle for preeminence with the Loan Department. That battle was eventually resolved in 1952 with the elimination of the Economic Department and the reassignment of its staff to other functions.

The Economic Department was the major casualty of the first World Bank internal reorganization. As we have seen, in its early years the Bank was organized by function, and the Loan Department and the Economic Department shared responsibilities for loan policies. The approval of a loan required the Loan Department to review the structural, technical, and financial aspects of a project, and the Economic Department to review the creditworthiness and political and administrative reliability of the country under consideration. Tensions had erupted as early as 1947, the first year of operations, when the Loan Department promoted a first attempt to reorganize internal responsibilities and maintained that research at the Bank should be under the loan director.[30] According to this proposal, the Economic Department should have been either converted into a "service department... doing the work it was asked to do in the way it was asked to do it," or eliminated once and for all and replaced by an economic adviser with a purely consultative function.[31] The Economic Department initially succeeded in defending its role and specifically its ability to conduct broader research that, albeit less immediately applicable, could stimulate effective, long-term development policies.[32] Its responsibility, it was maintained, was that "of drawing the attention of other members of the Bank staff to significant developments which it is considered may be of interest to them in their work."[33] However, this truce lasted only for a few years.

In 1952, the Bank's operations were reorganized by region. The staff that maintained relations with specific countries, irrespective of their specialization, joined the regional departments, which were responsible for the preparation, management, and evaluation of loans, as well as for evaluating the reliability of a country, studying development programs "in their widest aspects," organizing the economic survey missions, and writing the final reports.[34] By contrast, those engineers, technicians, financial analysts, and economists who had specific competences in certain sectors and worked on evaluation and supervision of projects in fields such as transportation,

30. "Demarcation between loan and research," Loan Dept., 12/4/47, ORGANIZATION.
31. "Collaboration between loan and research departments," Loan Department, December 22, 1947, ORGANIZATION; "Demarcation between loan and research," Loan Dept., 12/4/47, emphasis in the original, ORGANIZATION.
32. "Economic (research) and loan departments," Leonard B. Rist, March 11, 1948, ORGANIZATION.
33. "Role of the Economic Department in supplying information to the Bank," P. N. Rosenstein-Rodan to All Division and Section Heads, Economic Dept., August 20, 1948, ORGANIZATION.
34. International Bank for Reconstruction and Development, "Report of a Committee on Bank Organization," March 28, 1952: 4, Organization—Report of Committee on Organization 1952, Central Files, Fonds 2, WBGA.

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energy, and agriculture, joined the new Technical Operations Department, which became the largest in terms of head count. The three regional departments, together with the Technical Operations Department, made up the core of the institution. The Economic Department was relieved of all of its operational responsibilities, and disappeared to make room for a very small team called Economic Advisory Staff. As the committee in charge of the reorganization stated, "[T]he Economic Adviser would have no operational responsibility."[35]

The Economic Department was "never a favorite of McCloy, Garner, or Black" (Mason and Asher 1973: 75), and its research activity and heterodox proposals were viewed with an annoyance that at times was only barely concealed. The members of the Economic Department were reassigned to the regional offices, and broad research activities came to a halt. Paul Rosenstein-Rodan, a founding father of development economics and the most brilliant economist at the Bank in those years, eventually left the Bank in 1954 (Oliver 1975: 272). A few years later, Vice President Robert Garner hailed his departure with these words: "[H]e's finally gone to Harvard—to the academic world, where I think his talents lie.... The Bank was not the place for the development of broad economic policies or studies."[36]

As Garner's quotation makes clear, the Bank's senior management rejected the idea of an independent research department at the Bank. Garner and his colleagues' background can help explain this reorientation: They were all recruited from Wall Street, as one of the main challenges for the newborn organization was, in the late 1940s, to earn the trust of the US financial world so that it would invest in World Bank bonds. Who could be better at that than a former vice president of Chase National Bank (Black), or a well-known and respected Wall Street lawyer (McCloy)? McCloy, Black, and Garner gave the Bank a direction that was perfectly in tune with the mood of the US financial world: Specific, directly productive projects appeared much more Bankable than the broader and more complicated schemes proposed by the Economic Department. And after all, those loans had proven successful—at least financially successful for the Bank, as borrowers repaid their debts. In the course of a few years, a successful *modus operandi* had been established. It was not necessarily more efficient than that of the Economic Department, but it was incompatible with it. Moreover, it was supported by the senior management. During the 1950s and until the advent of George Woods in 1963, the Bank remained "overly concerned with the engineering aspects of projects" (Mason and Asher 1973: 78). The ability to plan projects, and the technical and engineering skills needed to implement them, became the essential functions of the organization, and Black's Bank essentially became a Bank of engineers.[37]

35. International Bank for Reconstruction and Development, "Report of a Committee on Bank Organization,": 7.

36. ORALHIST, Robert L. Garner, July 19, 1961: 98. Actually, Rosenstein-Rodan had moved to MIT not Harvard.

37. During the 1950s, more than 80 percent of the investments to developing countries went to the energy and transport sectors (Kapur et al. 1997: 109).

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The Long-Term Consequences of a Short-Lived Marriage

The development community, which was still in its infancy and without a defined shape in the early 1950s, did not seem to understand the tectonic shift that had taken place at the Bank. This should not come as a surprise. As a rather young organization, the Bank did not have a long history against which to compare its new course. In fact, the policies recommended by the early Economic Department and the subsequent elimination of the department all belonged, to an outsider's eye, to the same foundational phase. Moreover, the elimination of the Economic Department appeared as a simple act of restructuring, as it often happens in organizations. The insight brought by historical perspective enables us to see how the elimination of the Economic Department, as we will see below, not only changed the culture of the Bank, but also affected the evolution of the development debate. Yet, at first the closure of the department did not seem to have major consequences: Some Bank economists accepted relocation to other departments, while others accepted appointments elsewhere. Moreover, while economic research was being marginalized at the Bank, development economics was beginning to thrive in other multilateral and governmental organizations and in academia, and there was no shortage of jobs.

The Center for International Studies at MIT (Cenis) was one of the first centers entirely dedicated to the study of development issues. Established in 1950 with a much narrower focus on strategic broadcasting techniques in the US international propaganda effort, it soon broadened its activities to—in the words of its director, Max Millikan: "all forms of influencing foreign attitudes," and especially "the idea of economic development, or industrial growth" (Blackmer 2002: 9). This strategic rationale illustrates an important aspect of the birth of development economics as an academic discipline. The development challenge was by then a clearly recognized ground of confrontation in the Cold War battle for the soul of less developed countries. As Walt Rostow, a prominent economic historian at Cenis, wrote in his bestseller *The Stages of Economic Growth* (significantly subtitled: *A Non-Communist Manifesto*), fostering the economic growth of less developed countries was "the most important single item on the Western agenda" (Rostow 1990 [1960]: 134). Like for the post-war proliferation of area studies, the academic institutionalization of development economics had direct roots in the strategic needs of the Cold War—Rostow's career is perhaps the most famous embodiment of this connection.[38] As a matter of fact, Rosenstein-Rodan, upon leaving the World Bank, joined Cenis.

After Cenis, other centers were born throughout the 1950s and 1960s, such as Stanford's Research Center in Economic Growth, established in 1960 as the successor of the Project for Quantitative Research in Economic Development (established in 1957) and codirected by Moses Abramovitz, Hollis Chenery, and Emile Despres; the Yale Economic Growth Center, established in 1961 with the financial support of the Ford Foundation and the involvement of Simon Kuznets, Lloyd Reynolds, and

38. This connection has been widely examined by historians of modernization theory, see Gilman (2003); Engerman et al. (2003); Latham (2000, 2011). On Rostow, see Milne (2008).

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Gustav Ranis; and the Institute of Development Studies at Sussex University, founded and directed first by Dudley Seers and later by Richard Jolly and John Toye.[39] As mentioned previously, besides the establishment of specific research centers, starting in the mid-1950s, courses on the economics of less developed countries become gradually available. In 1960, Stanford offered three graduate courses in economic development and a seminar in economic development and comparative systems.[40] At Columbia, Ragnar Nurkse broadened his focus from international economics—which he had been teaching there since 1947—to embrace development economics (Kukk and Kukk 2009), while at Harvard courses in development economics were offered by John K. Galbraith and other professors such as Albert J. Meyer, an expert of middle eastern economies; Otto Eckstein, a student of public policies, inflation, and business fluctuations; and Edward S. Mason, the dean of the Harvard Graduate School of Public Administration and in 1963 the founder of the Development Advisory Service (today Harvard Institute for International Development).[41] As Galbraith summarized in a personal memo of the mid-1950s:

> There is a growing interest among graduate students in the problems of poor countries, and we have an expanding course offering in this field....
>
> The subject matter of this field distinguishes itself most sharply by its application to comparatively primitive economies. Virtually all of our other course work is concerned with the sophisticated economic society in which markets and factor markets reflect modern forms of organization. The problems of price and wage determination, resource allocation, and perhaps particularly of capital formation, all reflect the existence of highly developed institutions. The undeveloped countries do not have such institutions or they are partial or primitive. As a result, problems take on a distinctive form....
>
> Thus it seems fairly clear that there is an important and separate field of study here.[42]

From 1958, the discipline had its first course book, Amar Narain Agarwala and Sampat Pal Singh's extremely successful *The Economics of Underdevelopment: A Series of Articles and Papers* (1958), followed a few years later by another very successful anthology edited by Gerald Meier (1964). At that time, predigital era, those collections were among the very few instruments that gave students access to

39. Moses Abramovitz, Hollis B. Chenery, and Emile Despres, "Research center in economic growth," December 1961, Box 1 of 4, 12858, Stanford University, 1954, 1961–64, Hollis B. Chenery Papers, Harvard University. On the Yale Economic Growth Center, see Gustav Ranis's remarks at the center's 50th Anniversary Celebration, November 11, 2011, http://www.econ.yale.edu/~egcenter/50th-2011/RanisEGC50th.pdf (accessed on May 7, 2015); see also Gerry Helleiner, as quoted in Weiss et al. (2005: 116–17). On IDS Sussex, see Richard Jolly (2008).

40. "The graduate program in economics at Stanford," brochure, no date but marked "1960?" by an archivist, Box 1 of 4, 12858, Stanford University, 1954, 1961–64, Hollis B. Chenery Papers, Harvard University.

41. John K. Galbraith, "Economic development as a proposed field," no date but 1955 or 1956, Box 525, 8/53/E/3/8, Series 5. Harvard University File, 1949–90, John Kenneth Galbraith Personal Papers, John F. Kennedy Memorial Library, Boston University.

42. John K. Galbraith, "Economic development as a proposed field."

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the most relevant literature in the field, and were among the markers of the disciplinary institutionalization of a research field.

An important contribution to the new development canon, in the 1950s, came from economists at the UN Secretariat and regional commissions, especially the Economic Commission for Europe, headed by Gunnar Myrdal, and the Economic Commission for Latin America (ECLA), headed by Raúl Prebisch. The *World Economic Reports*, a flagship series published by the UN Secretariat, offered for the first time systematic surveys of national accounts for a number of industrial and nonindustrial countries around the globe. Thanks to the work of the Polish economist Michael Kalecki and his team, comparative cross-country studies of major economic variables such as output, employment, and income distribution became possible. Kalecki also initiated studies on bottlenecks in production in less developed countries, which until then had focused exclusively on European countries (Toye and Toye 2004: 71, 73). As Michael Ward put it, "The creation of a universally acknowledged statistical system... has been one of the great and mostly unsung successes of the UN organization" (Ward 2004: 2).

To be fair, economic thinking within the United Nations was not immune to a number of problems very similar to those experienced by economists at the World Bank. The political, multilateral nature of the United Nations imposed many constraints on the intellectual independence of the organization's researchers. As John and Richard Toye put it, scientific objectivity was all too often a euphemism for political acceptability (Toye and Toye 2004: 50). This not only affected the quality of economic research, but also attracted criticism motivated by the lack of structure and weak analysis.[43] Some economists, including Kalecki, left in frustration. Moreover, with the rise of McCarthyism in the early 1950s, the environment had become even more suffocating.[44] Yet, despite all these constraints, economic research at the United Nations was fundamental in shaping the backbone of postwar development thinking.

Particularly relevant, are the reports on full employment, international economic stability, the development of underdeveloped countries, and the problems of industrialization in less developed countries that the United Nations undertook between the late 1940s and mid-1950s (United Nations 1949a, 1951a, 1951b, 1955). These publications, also, were not immune from criticism. Jacob Viner, for example, denounced the report on full employment as an attempt to "undermine the foundations of what remains of a free market, free trade, free enterprise world" (Viner 1950: 407; for a more sympathetic review, see Rostow 1950). Yet, the report's framework became very influential in the subsequent debate, in particular because of its global perspective: It examined both developed and less developed countries; discussed national policies of economic development, full employment goals, and international trade relations as interrelated; and envisaged a role for multilateral institutions such as the World Bank and the IMF (Emmerij et al. 2001: 29–30).

43. See United Nations, Department of Economic Affairs (1948, 1949) and Robinson (1949) for an abrasive criticism of the 1949 report.

44. For a full discussion of Kalecki's case and McCarthyism at the United Nations, see Toye and Toye (2004: 63–86).

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On the role of the Bretton Woods organizations, it should be noted that the UN reports emphasized development and support to less developed countries as a primary mission of the Bretton Woods organizations. Whereas most literature about the Bretton Woods negotiations depicts them as the product of an Anglo-American discussion on how to reorganize monetary relations among the world's leading economies, Eric Helleiner has recently given new prominence to the contribution of other participants who, far from being mere wallflowers, voiced and successfully supported a development agenda that was also relevant for less developed countries (Helleiner 2014).

The "forgotten foundations" of Bretton Woods, as Helleiner has called them, entailed a strong focus on raising the living standards of less developed countries through comprehensive plans of industrialization, basic health care, food security, and housing improvements. This agenda was supported by American policy makers who had contributed to shape New Deal policies for the Roosevelt administration, and by scholars and policy makers from less developed regions, including Latin America, China, India, and Eastern Europe. In particular, as Helleiner notes, the partnership between Latin American and New Deal policy makers had begun already in the late 1930s, that is, well before the Anglo-American negotiations of 1942–44, and was fundamental to laying the foundations of a new course of international financial relations. This new course would favor state-led development policies over Kemmerer's free-trade self-regulatory mechanisms (Helleiner 2014; see also Helleiner 2003 and Alacevich and Asso 2009a, 2009b; on the New Deal domestic roots of the development vision, see Ekbladh 2010). The Federal Reserve had a leading role in initiating this "revolutionary" approach—as Triffin defined it in 1946 (quoted in Helleiner 2003: 251)—and our research above has confirmed that the Fed and the Bank's Economic Department shared the same perspective on North-South financial collaboration for development.

The Bank's early leadership did not turn to this epistemic community and effectively marginalized staff members who were on the same wavelength of the Fed's approach (see also Alacevich 2009, 2011). However, while the new intellectual framework did not go down well with the Bretton Woods organizations, it did reappear in, and actually substantially informed, the development debate at the United Nations.

The report *Measures for the Economic Development of Under-Developed Countries* (United Nations 1951a), in particular, was an important milestone in the establishment of the development paradigm of the 1950s: Its analysis of the development process in terms of capital accumulation, savings gap, and capital/output ratio set the tone for much of the subsequent research, while the report's discussion of factors such as technological advances and learning mechanisms within organizations (learning by doing, tacit knowledge) was a precursor of development thinking that would fully unfold only later. Moreover, the United Nation's proactivity in inviting some among the most prominent pioneers of development economics, such as W. Arthur Lewis, Theodore Schultz, Gunnar Myrdal, Jan Tinbergen, and Simon Kuznets to contribute to major flagship reports, is in sharp contrast with the lack of interest showed by the World Bank toward outsiders (see the EDI case above, and Emmerij et al. (2001). Lewis's contribution to the report on the economic development of underdeveloped countries, for example, is very visible in the report's discussion of differences in

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productivity rates between rural and urban areas, and how to shift labor from the former to the latter—which Lewis would later reframe in terms of subsistence and capitalist sectors of the economy (Lewis 1954).

Finally, any account of the UN contribution to early debates in development economics would be flawed if it did not mention the studies by Raúl Prebisch at ECLA and by Hans Singer at the UN Secretariat on the long-run decline of the terms of trade between primary products and manufactures (ECLA 1950; Singer 1950; United Nations 1949b; see also Dosman 2008; Shaw 2002). Interestingly, the World Bank Economic Department was addressing the same question in the same years: A 1949 internal memo discussed the likeliness of a long-term decrease in international coffee prices.[45] The memo was grounded in strong theoretical premises, in particular the so-called cobweb model, according to which commodity prices in one period determine the quantities produced in subsequent periods, which in turn affect later prices (the cobweb model had been formalized in 1934 by Nicholar Kaldor, the main author of the UN 1949 report). The memo predicted a marked increase in the price of coffee in the early 1950s, and warned against the possibility of overproduction shocks that would depress the coffee international market for years. Yet, the elimination of the Economic Department in 1952 relegated that kind of study to irrelevance. In 1953, coffee prices rose at unprecedented heights, followed by an overproduction crisis that lasted well into the 1960s, prompting the United Nations to establish the International Coffee Organization.

Studies on the international prices of primary commodities remained instead central in the development thinking of ECLA. These studies generated a decades-long controversy about the validity of the so-called Prebisch-Singer thesis. It is indisputable, however, that this thesis made ECLA a major actor in the early development debate, and provided ECLA, in the words of Albert Hirschman, with "attributes not frequently encountered in large international organizations: a cohesive personality..., and a set of distinctive beliefs, principles and attitudes, in brief an ideology, which is highly influential among Latin American intellectuals and policymakers" (Hirschman 1961: 13). As Charles Kindleberger (1955: 343) put it, in the field of economic development the United Nations were producing studies that were "insightful to the point of being provocative" (see also Toye and Toye (2004: 102–9).

Obviously, here the point is not so much whether the United Nation's research commanded praise or criticism, but rather to highlight—as the small but illuminating example of the study on coffee prices shows—its different course, when compared to that of research at the World Bank, and its contribution to the foundations of development economics. In this regard, it should be noted that, with a few exceptions (namely, Mandelbaum 1947; Rosenstein-Rodan 1943; and Staley 1944), the UN reports mentioned previously were all released before the main wave of publications that are now considered classics of development economics: works by scholars such as W. Arthur Lewis (1954, 1955), Albert Hirschman (1958), Paul Streeten (1959),

45. IBRD, "Increased dollar earnings and coffee inflation in Latin America," November 21, 1949, No. E-69a, WBGA.

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Ragnar Nurkse (1953), Gunnar Myrdal (1957), and Peter Bauer (1957; see also Bauer and Yamey 1957). As Stokke notes, UN research on economic development in underdeveloped countries contributed innovative analysis on trade relations, domestic savings and investments patterns, foreign investment trends, and foreign aid policies (Stokke 2009: 84–85).

Also, the development debate that unfolded at the United Nations, though it did not always bring about institutional reform within the United Nations, influenced important institutional developments elsewhere. The 1950s initiative for a Special United Nations Fund for Economic Development (SUNFED), which would have granted low-interest, long-term loans to underdeveloped countries to finance non-self-liquidating projects, was eventually aborted by the United Nations, but prompted the establishment, in 1960, of the International Development Association (IDA), a soft-loan organization affiliated to the World Bank, which arguably would have never seen the light otherwise. As the then-president of the World Bank, Eugene Black, admitted, the establishment of IDA served “to offset the urge for SUNFED” (Kapur et al. 1997: 1121, n. 2). Serendipitous and confrontational as this process of institutional evolution was, it nonetheless achieved the end result of establishing a multilateral soft-loan facility that was previously unavailable and that has since played a major role in international development policy.[46]

In sum, without necessarily agreeing with the views of the editors of the UN Intellectual History Project Series, for whom “the UN secretariat was a hothouse for ideas and early development economists” (Emmerij et al. 2001: 27), it seems unquestionable that development economics found fertile ground there. In particular, as noted previously, research efforts at the United Nations privileged the holistic approach of the World Bank Economic Department, and highlighted the need for the Bank to increase its volume of lending and consider the financing of program lending—as opposed to loans for specific projects—especially as a countercyclical policy (see especially United Nations 1951b). Ironically, the United Nations was making these recommendations exactly at a time when the Bank was dismissing them—as well as their main supporting entity, that is, the Bank’s Economic Department.

Indeed, in spite of all this ferment, the World Bank remained isolated from the evolution of the discipline for many years, and until the 1970s development economics had no influence on the Bank policies. Only its EDI remained involved and organized seminars with prominent development economists, but the rest of the Bank considered EDI marginal; this is symptomatic of how little the Bank was interested in economic research. World Bank rhetoric has usually emphasized the Bank’s separateness from research, often with more than a hint of contempt for the academic world and other multilateral agencies: As a technical body that finances concrete development endeavors globally, the Bank felt it had very little to share with academic theoreticians, and nothing with UN politicians—“busybody empire-builders or do-gooders” (Mason and

46. On the debate over SUNFED, see Toye and Toye (2004); Jolly et al. (2004); Stokke (2009). On IDA, see Kapur et al. (1997).

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Asher 1973: 561). Yet, the Bank's isolation came at a price, both for the effectiveness of the Bank's operations, and for the evolution of the field of development economics.

The elimination of the Economic Department and the demise of its policy recommendations impaired the Bank's long-term vision and its ability to design sustainable loan schemes. India is a good case study to observe these limitations. When India launched its first Five Year Plan in 1951, World Bank economist Antonín Basch warned that the country's exchange reserves were insufficient to support the implementation of the plan, despite the optimistic forecasts by Indian experts. According to Basch, unless additional hard currency was made available, India's balance of payments would soon be under unbearable pressure: "It is clear that, contrary to the statement in the Draft outline of the Five Year Plan, India is not in a position to finance even the first part of the Plan without additional foreign assistance."[47] Basch focused on the fundamental complementarity between a balance of payments in good health and the implementation of infrastructural and industrial investments plans. His approach to the Indian plan was in line with his colleagues' views on the loans to Italy and Brazil, mentioned previously, which had been conceived primarily to support those countries' balances of payments and not to finance specific projects. A Czech economist who had worked with Paul Rosenstein-Rodan on economic plans for Central and Eastern Europe during World War II, Basch was making the case for another "impact loan" to India.

Government-sponsored initiatives to the region approached foreign aid in a similar manner. The Colombo Plan, an international agreement announced in 1950 to foster economic development in South and South-East Asia and raise the standards of living of its populations, was also based on this two-pronged strategy, that is, specific infrastructural and industrial loans, and loans to counterbalance the disruptive effects of national plans on the balance of payments. Once again, as in the Italian and Brazilian cases, the discussion revolved around seemingly dull, but actually crucial technicalities, such as the direct link between balance of payments and domestic resources (i.e., "local currency counterpart") for long-term development: "What India and also other countries needed for the execution of the programs was not only foreign exchange to pay for capital goods needed for the execution of the programs, but also other imports in general to provide additional resources for investment. Imports of various commodities, including consumer goods, would generate local currency counterpart which would help to finance the local expenditure of the development programs" (Basch 1955: 4).

The Bank's senior management did not support this nonconventional approach to loan design. Exceptions such as Italy and Brazil, as we have seen, were only a handful and, in any case, the Bank's relationship with India intensified only from the mid-1950s onward, after the Economic Department had been closed. Bank loans to India focused on steel, power facilities, and railways, and no funds were devoted to support

47. IBRD, "The five year plan of India and India's creditworthiness," February 14, 1952, No. E-207a, Prepared by: A. Basch: v, WBGA.

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the country's balance of payments.[48] Yet, the Bank's exclusive focus on financing specific projects corroborated the optimism of the Indian planners and created a false impression of steady and solid growth. As a consequence, when India's balance of payments collapsed between 1957 and 1958, the event was totally unexpected.[49] Surely, the size of the Indian economy would have made the Bank's intervention in support of India's balance of payments more difficult than it had been in Italy. The option, however, was not even in the realm of possibilities: Without an Economic Department, the Bank no longer considered itself a player when it came to balance-of-payment issues, and was unable not only to conceive loans specific to these issues, but also to foresee the occurrence of such issues and to react appropriately when they occurred. The Aid-India Consortium, first convened in August 1958 at the initiative of the World Bank with the participation of the United States, the United Kingdom, Canada, the Federal Republic of Germany, and Japan, while the IMF attended as an observer, still focused exclusively on project loans. Only in 1963 and after much insistence, the United Kingdom, with the support of the United States and Canada, managed to expand the agenda of the consortium to include a small share of nonproject loans (Akita 2014).[50] We cannot know how things would have unfolded, had the Bank kept its Economic Department, but it is unquestionable that when the Indian crisis erupted, the Bank was impaired in its ability and willingness to envision the equivalent of an impact loan.[51] Yet, as we have seen above, only a few years earlier that had been a cutting-edge discussion at the Bank and outside it.

Another example of the Bank's limitations is its virtually complete neglect of so-called social loans, that is, loans for services and activities that would directly affect the standards of living of a population, but were not necessarily self-liquidating, directly productive activities. Alacevich (2011) has shown that early World Bank missions to less developed countries emphasized the complementarity between loans for directly productive activities and infrastructures, and social loans for health, education, food,

48. IBRD, "India. Second Loan Administration Report," August 12, 1955, No. A.S. 32-b, WBGA. See also http://www.worldBank.org/projects/search?lang=en&searchTerm=&countrycode_exact=IN (accessed on June 5, 2015). Two partially different loans were the 1953 loan for the Damodar Valley multipurpose project, which was aimed at preventing disastrous floods by building a system of reservoirs, canals for irrigation, and hydroelectric power facilities throughout the entire valley; and the 1955 loan to the Industrial Credit and Investment Corporation of India, to extend credits to private enterprises in India; see IBRD, "Report on projects submitted by the Indian government for a second loan in connection with the Damodar Valley Corporation," January 16, 1953, T.O. 2b, WBGA; and IBRD, "Report and recommendations of the president to the executive directors concerning a proposed loan to the Industrial Credit And Investment Corporation of India, Limited," December 10, 1954, P-77, WBGA.

49. See, e.g., a 1956 IBRD report in which the question of India's creditworthiness was relegated in a short chapter at the very end of the report, IBRD, "Current economic position and prospects of India: Report of Bank Mission to India," August 1956, No. AS-54a, WBGA. For the unfolding of the crisis, see IBRD, "Current economic position and prospects of India: Report of Bank Mission to India," May 9, 1957, No. AS-60a, WBGA; and IBRD, "Current economic position and prospects of India," July 28, 1958, No. AS-68a, WBGA.

50. From 1967, the drought that hit India and the need to increase food imports dramatically also contributed to the consortium reorientation toward nonproject loans, see O. S. Kamanu, "India consortium," Final Draft, July 10, 1968, WBGA.

51. This is confirmed by archival research conducted by David Engerman for his project "Planning for plenty: The economic cold war in India." I am grateful to David for discussing his research with me.

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and housing. The Bank's senior management, however, systematically disregarded the missions' reports on this subject. In this case as well, the decision to exclude social priorities from the Bank's loans—and to marginalize or fire their supporters among Bank staff—removed the Bank from debate that begun in the 1960s on the meanings of development and economic growth as a measure of development. As a World Bank officer later admitted, "[W]e know more about the cost effectiveness of alternate production techniques of motor boats than we do of teaching reading or delivering prenatal care" (Simmons 1974: 50). When it became clear that the social dimension of development had to be reintroduced in the interest of effective and successful policies, the Bank was completely unprepared for this shift.

This was, of course, as much a damage to the Bank as to the larger development field. The Bank is a formidable influencer of development policies and practices and, as two scholars put it, "[O]nce the Bank gets hold of an idea, its financial clout ensures that the idea will gain wide currency" (Gavin and Rodrik 1995: 333). The Bank's detachment, in this case, contributed to reduce the scale and impact of the social question in the development field for decades. It is likely that social issues would have been at the forefront of the development agenda, had the Bank been committed to them, just by virtue of the Bank's scale. As a case in point, let's look at the 1970s, when the Bank eventually committed to a number of social issues such as housing, basic needs, and poverty-biased policies, which were the buzzwords *du jour* among development economists: As soon as it did so, the Bank quickly became a leader in all of them. For good or for bad, the World Bank's interest or lack of interest in a question significantly affects the larger debate in development economics.

There is also another way in which the Bank's divorce from development economics negatively affected the evolution of the discipline. The World Bank, because of its nature and role, soon became the largest repository of data and information on development projects operating at the global level. Yet, this information was unavailable to development economists at large, and at the same time the Bank had neither an interest nor resources to make any systematic use of those data.[52] This was particularly unfortunate for the newly born discipline of development economics. Development economists traveled as "experts" and "advisers" to less developed countries and derived their research and theories from those experiences. The World Bank, which continued to focus on applied economics and was, in the words of its Vice President Garner, "not the place for the development of broad economic policies or studies," remained removed from this process, and essentially inaccessible.[53]

Obviously, this is not to say that the Bank was completely close to the outside world. Bank staff members participated in conferences, and scholars from academia had opportunities to work as consultants to World Bank missions, although this happened sporadically. For more than a decade, the Bank did not offer any relevant contribution to the discipline of development economics despite its importance in the field. When, in the mid-1960s, it became apparent that 20 years of development policies had

52. The Bank established an evaluation function only in the early 1970s.
53. ORALHIST, Robert L. Garner, July 19, 1961: 98.

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produced mixed results and no clear-cut lesson, development economists began to look at the recent history of their field in a more systematic way. One of the first examples is a two-year research by Albert Hirschman, on which his book *Development Projects Observed* is based (Hirschman 2015 [1967]; see also Alacevich 2014). As Hirschman wrote in the introduction to the book, the development activities of the World Bank constituted "the most ample, varied, and detailed source of information and documentation in this area" (Hirschman 2015 [1967]: 1). But it was also clear that Hirschman's research about Bank projects was made possible by a major change of attitude at the Bank toward the discipline of development economics: "[I]t is an extraordinary thing for the Bank to open its project files to an outside researcher," said an authoritative external scholar.[54]

The Bank had a direct interest in Hirschman's research and in what it could say about its lending history and the history of the development field. As a matter of fact, Hirschman benefitted of the new interest that the Bank's senior management showed toward the work of development economists. Those years—the mid-1960s—marked a period of change at the Bank: George Woods had replaced Eugene Black as the Bank's president and the organization faced increasing criticism about its policies and results. When Woods became its fourth president, the Bank's profits were growing "at an almost indecent rate" (Mason and Asher 1973: 407). Yet, the preponderant share of energy and transportation projects financed by the Bank—almost 83 percent of the total disbursements to less developed countries in 1948–61—showed an increasingly unacceptable bias toward infrastructural loans and neglect of other crucial elements of development, such as health and education, and more comprehensive policies.[55]

It was at that juncture that Woods—as mentioned already in this paper's introductory remarks—brought economists back to the Bank. Within a few years, and especially under Woods's successor, Robert S. McNamara, economists acquired a leading role, and economic research became central for the Bank's policies and reputation. The Economic Department, reintroduced under Woods, was increasingly perceived, with much exaggeration, as the organization's brain.

Conclusions

Today the history of economic research at the World Bank is usually dated back to the mid-1960s, that is, to when Woods reintroduced it. Goode and Kamarck, for example, record the first establishment of the Bank's Economic Department in the 1960s: "[I]t was not until twenty years after the opening of the Bank that a new president, George Woods, decided in 1965 to establish a central economics department" (Goode and Kamarck 1989: 234). Nobody remembers Leonard Rist, the first director of the Bank's Economic Department, while Hollis Chenery, hired during McNamara's presidency,

54. Robert E. Asher to Mr. Robert D. Calkins, "Hirschman project," April 8, 1964, Box 57, Folder 5, Albert O. Hirschman papers, Princeton University.
55. My elaboration from data by Kapur et al. (1997, Table 3.1: 86, 109).

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is considered the first chief economist in a noble lineage that includes star economists such as Anne Krueger, Larry Summers, Joseph Stiglitz, and François Bourguignon.[56]

The long eclipse of economic research at the Bank, however, inhibited not just the ego of Rist and his colleagues, but an effective exchange between the Bank and the larger development field. By 1963, when Eugene Black left the presidency and George Woods took the reins, the Bank had preached for more than a decade the belief that development ought to be promoted through financing projects for infrastructures and directly productive activities. "This, in the opinion of the management, was about what could be expected of a soundly managed international development institution" (Mason and Asher 1973: 462). Yet, an important legacy had been lost. When the Bank—under Woods and even more forcefully under Woods's successor, Robert McNamara—emphasized again the need of economic research for the medium- and long-term design of Bank policies, it could only hire economists from outside. Hollis Chenery, the chief economist during the McNamara presidency, was only the most prominent of a number of new recruitments from the academia.

Today the World Bank is without doubt a predominantly economic institution. Economists are its largest and most powerful professional group. The *reconquista* has been so overwhelming and complete that the view of economists is now the orthodox perspective at the Bank, to the point that many, even within the Bank, consider this hegemony excessive. At the same time that economists succeeded, development economics was reabsorbed in the economics mainstream. What exactly, then, were the motives of the Bank when it recruited economists again in the late 1960s and early 1970s? Partly, the desire to be a more active participant in the development debate. While development economics as an academic discipline lost momentum, this happened gradually; during the 1960s and 1970s, many "pioneers" of development were still active and willing to work with the World Bank. In other words, the World Bank captured the last generation of development economists.

Partly, however, the Bank was interested in acquiring the specific competence, status, and authority of the economics profession. McNamara, with his belief in the "scientific" analysis and solution of problems, was particularly important in this respect. McNamara brought to the Bank a managerial style heavily based on quantitative analysis of the organization's performance, which had been the hallmark of all his previous experiences—as an officer in the US Army Air Force Statistical Control during World War II, then a top manager at Ford Motor Company, and eventually Secretary of Defense in the Kennedy and Johnson administrations. Hollis Chenery had been selected also because of his strong abilities as a quantitative economist, while new information technology was quickly developing.[57] One of McNamara's most famous contributions to the Bank's internal policies was to measure and evaluate the efficiency of the various regional and country offices in terms of loans disbursed:

56. See http://go.worldBank.org/0HOV89HOI0 (accessed May 15, 2014).

57. "President's council meeting, March 17, 1975," Box n. 1, Series 02, President's Council minutes, 1968–75, WB IBRD/IDA 03-04, Office of the President, Records of President Robert S. McNamara, 309652B, A1995-253, WBGA.

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offices whose lending ratio was low became easy targets of criticism, in a sort of “lend or perish” approach.

Of course, one did not need the support of economics to implement managerial policies privileging quantitative over qualitative goals, but in broader terms the objectivity of quantitative evaluation, combined with the scientific status of economics, reinforced the Bank’s authority in the development field at a moment when it most needed it, and reiterated its seeming “neutrality” as a technical, nonpolitical organization—a feature whose substance is highly questionable, but very important for the Bank’s self-representation.

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