Robert McNamara's Second Vietnam

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The stylized view of Robert McNamara, who passed away a few days ago, is that after serving as the chief engineer of the disastrous US war in Vietnam, he went on, in 1968, to serve as president of the World Bank, seeking to salve his troubled conscience by delivering development assistance to poor countries.

The reality is, as usual, more complex.

Development from Above?

As president of the Bank, the world's premier channel for multilateral aid, McNamara did quadruple the institution's lending portfolio to $12 billion. The key beneficiaries, however, were authoritarian dictatorships. Indeed, the rise to hegemony of authoritarian regimes in the developing world cannot be separated from the massive funding that the World Bank under McNamara provided them. By the late seventies, five of the top seven recipients of World Bank aid were military, presidential-military, or military-controlled regimes: Indonesia, Brazil, South Korea, Turkey, and the Philippines.

Why did the Bank under McNamara feel a special affinity to military-dominated regimes? A great part of the reason stems from McNamara's own background. He was one of the prototypes of the "technocrat," a term coined in the early sixties to refer to the seemingly apolitical practitioner of the science of political and economic management. As chief executive of the Ford Motor Company, then head of the Defense Department, McNamara ran organizations that were hierarchical and non-democratic in structure. Not surprisingly, he was susceptible to the rhetoric of authoritarian regimes that promised to sanitize the political arena in order, according to them, to allow economic managers the space to modernize the country.

The Marcos Connection

One of the people who most successfully cultivated the image of being engaged in a process of bringing "development from above" was Philippine President Ferdinand Marcos, who imposed martial law in 1972 in order, in his words, to "break the democratic deadlock" that had become a barrier to development. "All that people ask," Marcos explained, "is some kind of authority that can enforce the simple law of civil society. Only an authoritarian system will be able to carry forth the mass consent and to exercise the authority necessary to implement new values, measures, and sacrifices."

Skillfully deploying a cadre of technocrats that included Alejandro Melchor and Cesar Virata to impress him, Marcos won McNamara over to backing his regime in a major way. The country was upgraded to what the Bank called a "country of concentration." Between 1950 and 1972, the Philippines received a meager $326 million in bank assistance. In contrast, between 1973 and 1981, more than $2.6 billion was funneled into the country. Whereas prior to martial law, the Philippines ranked about thirtieth among recipients of Bank loans, by 1980 it placed eighth among 113 developing countries.

In return for this massive increase in aid, the Bank was given carte blanche to forge a

comprehensive economic development plan for the Philippines. The two pillars of the strategy were "rural development" and "export oriented industrialization."

Containing the Countryside

"Rural development" was the Bank's response to the agricultural crisis. The centerpiece of the strategy was increasing the productivity of small farmers through the delivery of "technological packages" and upgrading agricultural support services like credit systems. Rural development, however, had implications that went beyond improved efficiency. As McNamara explained to the Bank's Board of Governors, the strategy would "put the emphasis not on redistribution of income and wealth—as justified as that may be in our member countries—but rather on increasing the productivity of the poor, thereby providing for an equitable sharing in the benefits of growth." In short, rural development was partly counterinsurgency, directed at defusing the appeal of the revolutionary movement among the restive rural masses. It was, as one development specialist close to the Bank described it, "defensive modernization" which if successful, will create a smallholder sector closely integrated with the national economy. Bank projects will encourage subsistence farmers to becomesmall-scale market producers. With economic ties to other sectors, the farmers will be loath to link their interests to those not yet modernized and will hesitate to disrupt the national economy for fear of losing their own markets.

Export-oriented Industrialization

When it came to industry, McNamara pushed Marcos and other World Bank clients to "turn their manufacturing enterprises away from the relatively small markets associated with import substitution toward the much larger opportunities flowing from export promotion." Quotas were to be eliminated and tariffs brought down to expose protected local industries to the winds of international competition; exporters were to be given incentives; export processing zones were to be set up; and wages were to be kept low to attract foreign investors. A plan by Marcos' more nationalistic technocrats to set up "11 big industrial projects," including an integrated steel industry and a petrochemical complex, that would serve as the strategic industrial core was shot down by the Bank as not in line with export promotion.

As in the case with rural development, there was a social logic to export-oriented industrialization. Persisting in industrialization based on the internal market would have meant having to undertake income redistribution in order to expand the market necessary to sustain it, a move that was not welcomed by the local elite. By hitching the industrialization process to export markets instead, the Bank broke the link between industrialization and domestic income redistribution, but at the cost of intensifying class conflict owing to the necessity of keeping wages low to make one's exports competitive.

The World Bank vision was grand, but implementation of a project that favored foreign interests and the traditional elites met mass resistance. It was dogged as well by corruption, cronyism, incompetence, and when it came to land reform, lack of political will. Then there was the special problem of Imelda Marcos, who wanted to corner more and more World Bank money for her projects. "Mrs. Marcos," one Bank bureaucrat wrote in a briefing paper for McNamara, "has identified herself with a few showcase projects that we consider ineffective and which are a bit of a joke among knowledgeable Filipinos."

Crisis and the Advent of Structural Adjustment

By the early 1980's, the World Bank program was floundering, prompting management to commission political risk analyst William Ascher to assess the situation. Ascher's findings were grim.

The Marcos regime was marked by “increasing precariousness” and “the World Bank’s imprimatur on the industrial program runs the risk of drawing criticism of the Bank as the servant of multinational corporations and particularly of US economic imperialism.”

In desperate effort to salvage a deteriorating situation, the Bank forced Marcos to appoint a cabinet of technocrats headed by Prime Minister Cesar Virata, its most trusted agent in the country. But the cure that Virata and company administered was worse than the disease. The country was subjected, along with only four other countries, to an experimental Bank program called structural adjustment that involved the comprehensive liberalization and deregulation of the economy. The program, one of McNamara’s last innovations before he retired in 1981, sought to fully expose developing economies to international market forces in order make them more efficient. In the Philippines, adjustment entailed bringing down the effective rate of protection for manufacturing from 44 to 20 per cent. Instead of invigorating the economy, however, this shock liberalization combined with the international recession of the early eighties to bring about deep economic contraction in 1983 to 1986.

Indeed, structural adjustment led not only to deindustrialization; according to one study, it also created so much unemployment that migration patterns changed drastically. The large migration flows to Manila declined, and most migrants could turn only to open access forests, watersheds, and artisanal fisheries. Thus the major environmental effect of the economic crisis was overexploitation of these vulnerable resources.

Adjustment led to a decade of stagnation from which the country never really recovered, even as its neighbors, who were smart enough to avoid being saddled with the program, were registering 6 to 10 per cent growth rates in 1985-1995.

Familiar Ending

Yet there was one unintended benefit for the country: the economic chaos structural adjustment provoked was one of the key factors that brought about the ouster of Marcos through a combined civil-military uprising in February 1986.

By that time, McNamara had been out of the Bank for five years. Ensconced in retirement, he must, however, have seen parallels between the last US helicopters leaving Saigon in 1975 and Marcos being transported to exile in Hawaii in a US aircraft in 1986. The Philippines was McNamara’s second Vietnam, and like the first, it was a memory the once celebrated whiz kid of the Kennedy administration would probably have preferred to bury.

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P.S.

* From Walden Bello Website:
http://waldenbello.org/content/view...

* Walden Bello is a member of the House of Representatives of the Republic of the Philippines. He is also a retired professor of sociology at the University of the Philippines and senior analyst at the Bangkok-based analysis and advocacy institute Focus on the Global South. He is the author or co-author of 15 books, including the Marcos era classic Development Debacle: the World Bank in the Philippines (San Francisco: Food First, 1982).