Quart J Austrian Econ (2007) 10:330–332
DOI 10.1007/s12113-007-9018-y

BOOK REVIEWS

The Dinosaur Among Us: The World Bank and its Path to Extinction. By Jeffrey C. Hooke

Tysons Corner, Virginia: BookSurge Publishing, 2007

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Published online: 26 October 2007

Think of a credit union in which a vast majority of members are dirt poor and/or corrupt, while only a small handful of members are exceedingly wealthy. What's likely to happen?

It would be expected that the poor members would attempt to manipulate the organization to transfer some of the wealth of the rich ones, being careful to avoid overreaching lest the rich members decide that membership is a net negative for them. It is for this reason that successful credit unions tend to maintain memberships of generally equalized incomes and why strict rules are set forth to establish both loan eligibility and the expectations and penalties associated with their being paid back.

Without those institutional constraints built into the credit union's operations, we would assume that the rich members would soon take their business elsewhere, and that is why, in the real world, we tend not to see such arrangements lasting in the long run. So let us tweak our example a bit. Assume that all members, rich and poor, obtain their wealth not through (say) increasing productivity via a lowering of time preferences, but through coercive wealth transfers. Furthermore, assume each individual member's personal wealth is not directly dependent on the success or failure of the credit union's operations. If it poorly manages member deposits, all each member needs to do is return to the money trough from which coercive wealth transfers originate. Finally, imagine that the credit union managers possess perverse incentives to maximize loan volume (as opposed to maximizing loan profit) and that their extremely lucrative remuneration is based on the expansion of such loans. Surely, such an organization might exist in the realm of thought experiments but would never exist in the real world. Right?

Unfortunately, this is not the case because such an institution exists, and persists, in the World Bank, as described in Jeffrey C. Hooke's important and pithy book, *The Dinosaur Among Us: The World Bank and its Path to Extinction*. Hooke provides a

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fairly damning overview of World Bank activities with criticisms made as a former insider. While his brief reform suggestions show somewhat of a lack of economic understanding—and in particular, a lack of appreciation for property rights—the preponderance of this book summarizes the World Bank's legacy of inefficiency and ineffectiveness. The result is a must-read for anyone looking for a quick and readable overview of operations, philosophies, and history of an increasingly notorious organization.

This 117-page book is divided into nine chapters, many of which are worthy of book-length manuscripts in their own right. Chapter 1 is a basic, introductory chapter centering on a typical day at the World Bank. Chapter 2 provides a short history of the World Bank, showing the Bank's initial size and scope and then illustrating how it has deviated from that point over time. Chapter 3 discusses the current state of the Bank with a focus on its resources, its lack of a reliable loan evaluation system (the existence of which is made superfluous when World Bank emphasis is on loan volume, not quality), and the quality of the senior staff. Chapter 4 explains how the Bank was justified at the 1944 Bretton Woods conference and then how successive Bank presidents influenced its development, with focuses on the disastrous reign of former Secretary of Defense Robert McNamara, its permutations during the Reagan administration (which justified the Bank as an engine for market-based reforms), and the leadership of Paul Wolfowitz (who came to the Bank as another Department of Defense veteran with a less-than-stellar record).

The next four chapters provide detail on how the Bank operates, including the loan process, the work and organization of the staff, and the role of politics and logrolling in the formulation of Bank policy. The last chapter is the weakest in that it provides reform recommendations that are unlikely and certainly naïve, given that the description of the organization in previous chapters describes an entity that is beyond reform. Besides, if such an outfit is on a path of extinction, then why get in its way?

Some detail of interest in *Dinosaur* concerns the following points:

First, the World Bank is big. That is hardly news, but the data is worth reviewing occasionally. The Bank controls over $315 billion in assets, employs 10,000 and its lending program was $21 billion in 2006 alone. It pays its staff very well in both salary and benefits, in part to promote intellectual and political support for the Bank and its activities. But spending all that money is bound to produce unintended consequences. One explicitly discussed by Hooke is corruption by officials on the receiving end of the Bank's largess. Hooke divides such corruption as ordinary and indirect. Ordinary corruption occurs when funds are diverted to uses not specified in loan agreements. This money goes to government officials and international contractors and comprises (according to one cited study) 30% of all World Bank projects. Indirect corruption occurs when Bank funds are used to favor the elite classes in developing countries, even when the funds are used for purposes ostensibly approved by the Bank. So when funds are used to purchase lands for the use of a country's poor and only the less productive parcels are made available for sale, the purpose of the loan program is defeated.

Bank officials seem resigned to both forms of corruption. One told Hooke, "If we didn't loan to corrupt governments, we'd be out of business!" (p. 28). Indeed, the cronyism that justified Paul Wolfowitz's forced resignation (which occurred just after *Dinosaur*'s publication) is a virtual nonevent compared to the everyday and unremarked corruption the Bank enables each year.

It is not until the last chapter of *Dinosaur* that Hooke hints at another unintended, and extremely costly, side effect of such activities, and that is its tendency to entrench governments that would otherwise be thrown out by citizens fed up with their incompetence. Such loans allow corrupt governments to redistribute funds to constituencies necessary to keep them in power. In Argentina, these funds might go to union interests, while in Zimbabwe, they might expand the civil service. Not only do those constituencies that are not central to the political class' need to remain in power suffer, in the longer term these loan programs create an anti-American backlash in places like Bolivia, Venezuela, and Brazil.

Another unintended consequence is the extent to which World Bank loans enable outsourcing trends that have been amplified in recent years. Hooke notes that 40% of the Bank's loan portfolio is accounted for by seven members—Bangladesh, Brazil, China, India, Indonesia, Mexico, and Pakistan—several of which have benefited greatly from the outsourcing of productive resources from developed economies in recent years. While capital and labor will always move to regions where they can be more productive, it is likely that World Bank activities (such as financing for highway and power generation projects) accelerate this process faster that it would have taken place if left to market forces, resulting in a super-optimal amount of outsourcing. If so, many of those who complain about outsourcing in the USA also make such trends more likely when they defend World Bank activities.

Hooke also discusses the tendency for the Bank to provide loans to foreign governments that already receive much capital investment from private capital flows. Should money go to China, for instance, which is already a magnet for international investors, or, for that matter, to any of the emerging markets (such as Columbia, Kazakhstan, Romania, and Vietnam) that have received attention from Wall Street analysts for some time? Then again, is it economically efficient to loan money to countries that private investors consider not worth the risk? This practice, which is easier to do when loaning other people's money, often hinders economic development by rewarding bad policies and helping incompetent leaders remain in power. The result is a cycle that virtually guarantees increased loan demand in the future.

Hooke describes the Bank, which he calls a secretive multilateral, as an institution that is much like the US Federal Reserve in its opposition to legitimate outside accounting review and oversight. Hooke gives short shrift to important events, such as the Mexican devaluation and the more recent Argentinean default. He also avoids entirely the effect that the breakdown of the Bretton Woods system and the emergence of the US dollar as an international fiat currency had on the growth of the World Bank since the early 1970s.

But such oversights are perhaps to be expected in a short manuscript. *Dinosaur* reveals many relevant truths that do not appear in World Bank financial statements and press releases while reviewing much of the relevant literature. In the process, Hooke provides a much needed service. If the World Bank ever does go the way of the dinosaurs, he will have gone far in explaining why.