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**HEADLINE:** The Wolfowitz affair and its consequences

**BYLINE:** Joseph Stiglitz

The current crisis at the World Bank is a chance finally to fix the governance problems at the world's major institution for promoting development. It is time for the US to give up its hold on picking the president of the bank and for Europe to give up its grip on choosing the president of the International Monetary Fund. Had the process of picking the president been truly democratic and fair in the first place, it is almost certain that Paul Wolfowitz would never have been selected.

There is now a global consensus that Mr Wolfowitz will have to leave the World Bank. In democratic societies, leadership requires the confidence of those being led. Mr Wolfowitz has lost that confidence and will not be able to restore it in the three years remaining in his lame-duck tenure. He could, of course, try to appoint more loyalists at the top. But that would only lead to more alienation from the more than 10,000 employees who must carry out the bank's mission.

Moreover, the bank relies on voluntary contributions from the advanced industrial countries to carry out its essential missions in the least developed countries. It is a matter of good governance that taxpayers in the European countries that provide the overwhelming majority of those funds (the US does not even pay its proportionate share) have confidence in the institutions that administer their funds. They, like the staff of the bank, have lost confidence in the bank's leader.

What is at issue, of course, is not just a violation of ethics or bank procedures, though those are important. Nor is it just the distortions of the record that Mr Wolfowitz's team have repeatedly put forward in defence of this and other highly criticised decisions, though those too are important. Mr Wolfowitz and his team do not seem to understand that being president of the World Bank is a privilege, not an entitlement. Whatever short-term benefit these distorted defences may bring, they do little to engender the long-term confidence that is so badly needed.

There is an old expression that fish rot from the head. So, too, good governance starts from how the head is chosen. Restoring confidence in the bank will require finally addressing the way in which its president is selected. Since the inception of the World Bank, it has been in effect an appointment by the US president, without even the vetting of the US Senate to which US officials at home are subjected. In this case, President

George W. Bush sealed Mr Wolfowitz's appointment with a few phone calls to friends, such as Tony Blair, UK prime minister. The development and finance ministers who should have been intimately involved in the decision-making were left to ratify what was essentially a done deal and the bank's board members then ratified the deals made in the capitals.

The problems continued after Mr Wolfowitz was appointed. He brought in political allies and supporters of the Iraq war and gave them top-level positions in the bank administration. At the same time he pushed an anti-corruption agenda, which (while laudable) was highly politicised and often did not follow due process.

All of us support anti-corruption and good governance efforts, but they need to be accompanied by good-faith processes. Good governance in a democratic, multilateral institution starts from choosing the best individual, regardless of nationality, race, gender, or ethnicity. There may be honest differences of opinion about the essential, or at least desirable, characteristics. But surely the list would include a command of development economics, political experience and demonstrated managerial expertise in running a large multilateral organisation. In short, characteristics that are likely to have earned the respect of the bank's multiple constituencies: its staff, the countries receiving assistance, the countries contributing assistance and the non-governmental organisations that have appealed to the world's moral conscience concerning the need for foreign assistance. It may not be necessary that the head come from the developing world, but certainly someone from the developing world has a natural advantage in understanding the problems that they confront.

There are first-rate individuals who meet the criteria, including Arminio Fraga. A Princeton economics PhD, Mr Fraga held senior positions at Soros Fund Management and Salomon Brothers and did a stellar job heading Brazil's central bank. Another excellent choice would be Kemal Dervis, head of the United Nations Development Programme, who taught at Princeton, served as a vice-president of the World Bank and proved his mettle as Turkey's effective and popular minister of finance during a period in which that country faced financial turmoil.

Poverty in developing countries is one of the central issues facing the world. The World Bank is the most important global institution spearheading the fight against poverty. It was right to emphasise good governance. But it cannot play any significant role in the fight for good governance unless it reforms its own. Mr Wolfowitz's exit is but a first step. How his replacement is chosen is no less important.

The writer was awarded the Nobel Prize for economics in 2001 and is the author of *Making Globalization Work*