The New International Economic Order (NIEO) was among the more notable aspects of the 1970s, a decade that scholars have begun to view as a critical period in contemporary history. Although anticolonial leaders, dependency theorists, and others had long advocated reforming the international political economy to spur more rapid development of the global south, the attempt to enumerate and codify these proposals under the auspices of the United Nations was unprecedented. So too was the fact that, for a time, northern governments entertained some of the demands.

A unique confluence of events created the conditions for the NIEO. The success of the Organization of Petroleum Exporting Countries (OPEC) in increasing world oil prices convinced many developing country leaders that the time was right to demand changes to the international system, at the same time that higher energy costs made economic restructuring a necessity for many oil-importing developing nations. Cracks in the Western alliance, the cooling of East-West tensions that accompanied détente, and a desire to curry favor with postcolonial states also created space for northern governments to engage in discussions over global economic reform.

Ultimately, divisions within the southern bloc and the opposition of the U.S. government doomed the NIEO. The outbreak of the international debt crisis in the early 1980s presented an opportunity for northern governments to ignore the demands of developing countries and begin pushing on many of these nations a set of free market reforms focused on trade liberalization, debt service, and fiscal austerity. Less than ten years after the UN General Assembly passed the Declaration for the Establishment of a New International Economic Order in 1974, the world economy was being restructured in radically different ways.

In retrospect, the NIEO stands as a high water mark in developing countries’ efforts to influence the commanding heights of the world economy. The NIEO demands were wide ranging and dealt with questions that continue to animate debates over globalization, such as the role of the state in promoting growth, the regulation of multinational corporations, and sovereign debt relief. Underlying it all was a view that politics and economics were deeply intertwined. To NIEO adherents, market forces had replaced colonialism in restraining the development of the global south. In order to rectify this state of affairs, developing countries argued that they needed greater control over the institutions and processes structuring the world economy. Aware that these ideas had drawn the ire of northern governments in the past, the NIEO Declaration, as well as the Charter of Economic Duties and Rights of States that the General Assembly passed a few months later, sought to ensure that powerful countries
respected the sovereign right of nations to promote development in their chosen way.\textsuperscript{3} Without greater economic autonomy, the argument ran, political independence meant little.

Despite its importance, our understanding of the NIEO remains limited. Studies of the NIEO’s intellectual lineage, the politics of the negotiations, and relations within and between the northern and southern blocs have given us better sense of the reasons that the NIEO played out the way it did.\textsuperscript{4} Yet scholars have not examined fully the NIEO’s origins, evolution, and consequences.\textsuperscript{5} As a result, a critical chapter in recent international history remains unwritten.

This essay furthers our understanding of the NIEO by approaching it from a previously ignored perspective: that of the World Bank. The response of the Bank, a multilateral organization established in 1944 to promote postwar reconstruction and economic development, to the NIEO presents something of a paradox. On one hand, the Bank should have been a key player in the debates over global economic reform. The Bank was the world’s preeminent development institution, and many NIEO issues, particularly with respect to development assistance and sovereign debt, intersected with its work. Recognizing this, over the course of the 1970s officials from developing countries sought to place elements of the NIEO onto the Bank’s agenda. Nevertheless, the Bank’s management, concerned with maintaining the organization’s image as an apolitical institution and shoring up support from northern governments, prevented this from happening. Rather than engage with the NIEO, the Bank responded to developing country demands by promoting an alternative vision of global economic reform. Specifically, the Bank sought to distract attention from southern demands by mobilizing the international community behind a movement to eradicate global poverty. Importantly, whereas the NIEO attempted to channel globalization in directions that would bolster the power of the state, the Bank’s antipoverty vision countenanced a limited role for developing country governments in promoting development. Thus, while the Bank echoed southern concerns about the need to accelerate the development process, it articulated a vision that was at odds with the NIEO’s emphasis on state-led development strategies.

The Bank’s approach was not particularly surprising given the organization’s close ties to private capital and the U.S. government. Indeed, U.S. officials sought to use their influence over the Bank to undermine support for the NIEO. Still, it is important to account for the Bank’s response to the NIEO for several reasons. First, the Bank’s failure to address the NIEO deprived developing countries of a venue in which parts of their vision could have been realized. For all its limitations, the Bank had a relatively large degree of autonomy in the 1970s, and a more sympathetic Bank leadership could have incorporated elements of the NIEO onto the Bank’s agenda. As such, the Bank’s failure to address developing country demands can be seen as one factor in the NIEO’s demise.

The Bank’s response to the NIEO also marked an important moment in the organization’s history. Although the Bank had often sought to insulate itself from global politics, the NIEO forced the organization to develop tools that allowed it to sidestep sensitive issues more easily. In addition to its antipoverty rhetoric, Bank officials enhanced the organization’s research and advising capabilities as a means to
undercut the NIEO. The 1978 creation of the World Development Report, which has become the Bank’s flagship publication, was one of the most prominent of these efforts. The Bank also initiated a more intensive program of economic policy advising partially as a means to reduce support for the NIEO. The Bank’s leadership even commissioned the Report of the Independent Commission on International Development Issues (the “Brandt Report”) in the late 1970s to counter arguments that it was doing too little to help developing nations. Hence the NIEO played a role in the Bank’s emergence as a center of development thinking and advising.

These efforts took place at the same time that the Bank began embarking on an aggressive strategy to promote free-market reforms in developing countries. By the late 1970s, the Bank had not only eschewed the NIEO but was also coming to play a critical role in promoting economic liberalization throughout the global south. Particularly through its program of structural adjustment lending, the Bank cajoled officials in many developing countries to jettison their demands for global economic justice and adopt policies that relaxed constraints on domestic and international market forces. In this way, the Bank, which had studiously avoided involvement in the NIEO, became a key player in the advent of the “real new international economic order.”

The World Bank

The World Bank is the common name for a group of international organizations whose main body, the International Bank for Reconstruction and Development (IBRD), was founded alongside the International Monetary Fund (IMF) at the Bretton Woods conference of 1944. While the IMF was charged with promoting the economic stability of its member-states through the provision of short-term loans to central governments, the Bank made long-term loans to central governments for postwar reconstruction and economic development.

The Bank initially focused on postwar reconstruction, lending heavily to countries in Western Europe in its early years. The Bank then shifted to development with the onset of the Marshall Plan. In the late 1940s, the Bank began to provide capital and technical assistance to countries in the global south, first in Latin America, and within a few years had become a key player in the emerging international development landscape.

The nature of the Bank’s lending changed with its geographical focus. While the organization’s postwar reconstruction loans took the form of general budgetary support (“program loans”), by the early 1950s the Bank had started to lend exclusively for large physical infrastructure projects. Although the Bank’s articles of agreement mandated that the organization channel most of its capital toward clearly demarcated projects so as to avoid the unaccountable lending that plagued international finance in the prewar period, this change primarily reflected the growing influence of the organization’s project-minded engineering staff over its program-minded economists. The fact that Bank raised most of its funds through the sale of its bonds on the private capital markets also contributed to this approach, since project funding was considered a more creditworthy activity than program lending.

Although project loans remained the Bank’s preferred vehicle throughout the 1960s and into the 1970s, the nature of the Bank’s lending changed during this period...
from a focus on capital-intensive infrastructure to include projects aimed at alleviating poverty through smallholder agriculture, education, housing, and public health. Much of this transformation occurred after Robert McNamara assumed the Bank presidency in 1968. McNamara had spent the previous seven years presiding over the escalation of the Vietnam War as U.S. secretary of defense. Chastened by this experience but remaining convinced that poverty in developing nations posed a threat to international security, McNamara dramatically expanded the Bank’s lending, research, and policy advising programs. As a result, by the early 1970s the Bank had established itself as the dominant player in the international development community.

Still, the Bank remained dependent on the U.S. government and private capital markets for political and financial support. The U.S. government wielded significant influence over major Bank decisions as a result of the organization’s weighted voting structure, in which countries’ voting power on the Bank’s board of executive directors was tied to their financial contributions to the Bank. Further, McNamara’s drive to increase the Bank’s lending required the Bank, which had always raised capital by selling its bonds on the private market, to expand its borrowing operations. These constraints led the Bank to adhere to a relatively conservative approach to development. Throughout the 1970s, the organization offered only limited support to state-owned enterprises, opposed the growing wave of expropriations taking place in many developing nations, and refused developing country requests to reduce their financial obligations to the Bank.

“The Rich Countries’ Substitute for the NIEO”

Not surprisingly, then, Bank officials opposed efforts by developing countries to reform the international economic system via the NIEO. The NIEO, a series of proposals put forth by developing countries in 1974, which included increased aid flows, greater control over foreign investment, and preferential treatment for developing country exporters in the markets of developed nations, represented the culmination of years of southern activism within international organizations like the United Nations Conference on Trade and Development (UNCTAD). Inspired by the views of structuralist economists and dependency theorists and emboldened by OPEC’s successful efforts to increase global oil prices, by the 1970s a number of developing countries were ready to make formal demands for economic self-determination. To this end, in April 1974, the UN General Assembly convened its first special session focusing solely on economic issues. With the oil embargo fresh on everyone’s mind, the General Assembly approved a Program of Action for the establishment of a New International Economic Order that called, inter alia, for a suspension of developing country debt payments and the creation of a fund to stabilize various commodity prices.

The NIEO posed a difficult challenge for the World Bank. As the world’s largest development institution, the Bank was intimately connected to many core NIEO issues, particularly with respect to aid and debt. Moreover, the Bank’s status as a multilateral organization required that it be somewhat responsive to its southern members. Yet the Bank was also dependent on northern governments, and its desire
to maintain the support of its most powerful members prevented it from embracing the NIEO agenda.

World Bank officials demonstrated an early interest in the NIEO proposals. A few days after developing countries issued their call for an NIEO in the UN General Assembly, McNamara met with UN Secretary General Kurt Waldheim to discuss how the Bank could help mobilize the increased foreign aid levels called for by the NIEO sponsors.\(^{20}\) Over the coming months, McNamara also had Bank staff research ways to assist developing countries’ commodity prices stabilization efforts.\(^{21}\) In part, these moves grew out of McNamara’s reformist sympathies; he had flirted with a number of south-friendly positions before the NIEO was unveiled. Aside from continuing the Bank’s long-standing support for reductions in developed country import barriers and increased foreign assistance levels, in 1972 he argued for allocating IMF Special Drawing Rights to developing countries as a means to supplement regular aid flows.\(^{22}\)

Yet the Bank soon demonstrated a fundamental hostility to the NIEO. Before long, McNamara had come to view southern demands as political in nature and, as such, outside the Bank’s jurisdiction. At one point, he told his aides that he questioned “the appropriateness of the Bank openly taking policy positions on most items on the international agenda.”\(^{23}\) Perhaps more importantly, the NIEO threatened the Bank’s position in the world economy. Developing country calls for permanent machinery for sovereign debt restructuring ran counter to the Bank’s long-standing opposition to debt relief and presented an alternative to the informal “Paris Club” donor meetings in which the organization played a prominent role. As a result, over the course of the 1970s McNamara sought to distance the Bank from the NIEO by refusing to address the proposals in public statements and by having the organization avoid fora focused on global economic reform.

The Bank was, however, brought into the fray from another direction. As the NIEO gained traction, some American officials viewed the Bank as a tool to blunt southern demands.\(^{24}\) This was particularly true of Henry Kissinger, who as U.S. secretary of state led a charge to counter developing country demands by indicating that the United States would be prepared to increase its multilateral aid commitments.\(^{25}\) In 1975, Kissinger came out in favor of a general increase in the Bank’s capital base as well as proposals for commodity price stabilization. The following year he signaled his support for the creation of an international resources bank, potentially to be managed by the World Bank, that would provide financial and technical assistance to developing nations for non-oil extractive ventures.\(^{26}\)

Kissinger’s interest in using the World Bank to blunt developing country demands touched off a struggle within the Ford administration. At the same time that Kissinger sought to use the Bank to co-opt developing nations, U.S. treasury secretary William Simon, a vocal opponent of multilateral development aid, was attempting to reduce the Bank’s lending. Bank operations in Nigeria were a major bone of contention. Whereas the Treasury Department had opposed Bank lending to Nigeria since the outbreak of the 1973–74 oil crisis, Kissinger viewed Nigeria as an important U.S. ally and in 1976 encouraged Simon to call off his campaign to terminate Bank lending to the country.\(^{27}\) “More detriment than gain” would result from a cutoff, Kissinger informed Simon. “The United States has significant political and economic interests...
in Nigeria, which might be summed up as: (1) continued access to their natural resources; (2) continued influence on the largest, most powerful black African nation; and (3) continued access to a large and growing market for U.S. exports and investment.”

Evincing his growing appreciation for the role of economics in international relations, Kissinger argued that it was in the United States’ best “interests to assist the Nigerians in constructing a policy framework for development which is generally western-oriented with a large role for market forces,” something in which “the World Bank can play a major role.” Moreover, Kissinger claimed, in lending to Nigeria the Bank could reduce southern support for the NIEO. “Nigeria is expected to play a key role” in discussions over the NIEO, Kissinger informed Simon, and “we will need moderate friends in the developing country group.” Finally, Kissinger pointed out that, despite its power, the United States could not unilaterally control the World Bank. “Other major donors have given us virtually no support in our earlier efforts to persuade the Bank to stop lending to OPEC countries,” Kissinger reminded Simon, and, if the Treasury continued to oppose Bank lending to Nigeria, the United States “would be fighting alone a battle we are going to lose.”

At the same time that the U.S. government was battling over the Bank, other northern governments signaled their disinterest in proactively addressing southern demands. “It had been somewhat disquieting to observe in Europe that the attitude towards aid was increasingly turning negative,” McNamara told his senior staff in July 1976. “The British [were about to] cut their aid budget . . . and no one anywhere seemed to have formulated a positive program for the North/South dialogue.”

Compounding this set of problems, by the mid-1970s developing country officials began criticizing the Bank for ignoring the NIEO. There was a “hostile UN reaction, mainly from the G-77” to the Bank’s approach, a senior Bank official noted in January 1978. Many developing country leaders had come to see the Bank’s antipoverty focus as “a cop-out” from addressing the NIEO proposals. As McNamara put it, a consensus was building among developing countries that the World Bank “was the rich countries’ substitute for the NIEO.”

Bank officials sought to deflect this criticism by promoting further study of the issues that the NIEO had raised. Upon the urging of the British writer Barbara Ward, in January 1977 McNamara proposed the creation of an international commission, to be headed by former West German chancellor Willy Brandt, which would propose ways to overcome the “continuing impasse” in the north-south dialogue. “There was no question that the intellectual foundation for handling the north-south problems was lacking,” McNamara told his aides. “The North-South report would help to resolve this by ‘creat[ing] a better understanding of the major development issues, in order to portray more clearly both to policymakers and to the general public the interaction of developed and developing economies, and the joint efforts needed to deal with economic development problems.’”

Meanwhile, the Bank began work on a series of annual reports that would, in McNamara’s words, “build an integrated framework [for] development strategies.” As he told the Bank’s board of executive directors in June 1977, these studies would provide an “intellectual foundation for exploring particular development strategies at
the general or sectoral level,” create a “framework for the Bank’s own strategy,” and “facilitat[e] the dialogue on development strategy which we pursue with member government[s].” This initiative resulted in the 1978 creation of the World Development Report, which soon became the Bank’s flagship publication. Bank officials also sought to enhance the organization’s economic policy advising operations by initiating a series of “desk studies” to improve the Bank’s “policy and planning dialogue with countries.” Expanding the Bank’s consulting work, McNamara noted, would constitute a “useful tool” for the Bank as it navigated the north-south debate.

A meeting of the Bank’s senior management in February 1978 provides a revealing glimpse into the manner in which Bank officials sought to address southern demands. Shahid Husain, vice president of the Bank’s East Asia department, began the discussion by noting that the NIEO had raised vexing questions about the Bank’s role in the international economy. The “broad consensus on policies” in which the organization had operated over the last three decades, he observed, “was becoming more elusive because of . . . the sharpening confrontation between North and South.” While developing countries considered the Bank “an intellectual leader in major areas of development,” they also thought that the organization was “vulnerable[e] to outside pressures,” particularly from the U.S. government. The Bank was in a quandary, McNamara responded. “In pressing for increased capital flows and in its trade policy statements, the Bank had a pronounced pro-South policy position,” yet developing countries “mistrust[ed] and misunder[stood]” the Bank. “The problem with the North-South dialogue,” another Bank official noted, “was that the South felt that the Bank was associated with the North and the North felt that the Bank was associated with the South.”

Bank officials agreed that the best way to deal with this problem was to have the organization forge closer ties with officials in developing countries. To Burke Knapp, the Bank’s head of operations, southern demands for an NIEO were the result of the Bank having “not done enough to educate the makers of political choices” in the developing world. Ernest Stern, who would soon take over for Knapp, went a step further. “The Bank’s publication’s program was too much research-weighted,” he complained, “designed to inform the world of the Bank’s intellectual leadership rather than appeal to policy makers.” Husain concurred. The Bank’s “increasing involvement in issues of management of countries and in the political and social field . . . required a far broader dialogue with [developing country] policymakers.” As a result, “the Bank should seek to reduce southern support for the NIEO by “adopt[ing] a more aggressive approach of educating” officials in borrowing nations. McNamara concluded the meeting by stating that the Bank should seek to “develop closer relations with the intellectual leadership” in developing countries so as to prevent them from continuing to advocate for the NIEO while expanding its research program “over the next years to make the Bank’s wealth of information and expertise available to policymakers.”

The Bank and the Making of the Real New International Economic Order

The sense among the World Bank’s senior management that the organization should seek to forge closer ties with developing country officials led to the creation of...
structural adjustment lending (SAL) in 1979–80. Although the 1979 oil crisis has usually been credited as precipitating the initiation of SAL, internal factors were critical in the Bank’s decision to begin making loans to developing country governments that were conditioned on those governments instituting Bank-prescribed economic policy reforms.42

SAL represented a thoroughgoing repudiation of the NIEO. By the end of the 1970s, the organization’s vision of development had congealed around a belief that the surest route to growth was through full-scale economic liberalization. Though it had never directly embraced statist development models, the Bank had been open to mixed-market approaches throughout its history. Beginning in the late 1970s, however, the Bank’s policy and research documents increasingly stressed the need for developing countries to eliminate trade and price controls, reduce government spending, and privatize state-owned enterprises. The introduction of SAL, with its conditions that borrowing governments adopt liberalization measures, gave operational significance to the Bank’s focus on encouraging reductions in government economic intervention.43

McNamara left the Bank in 1981, as SAL was getting underway, and his successor accelerated this shift. A few months after taking office, the Bank’s new president, A.W. “Tom” Clausen, former head of the Bank of America, gave a speech in which he put an end to the Bank’s official neutrality on the NIEO by declaring that the organization “was not in the business of redistributing wealth from one set of countries to another set of countries.”44 Shortly thereafter, the Bank increased the interest rates on its loans and expanded its SAL program.45 The Bank’s transformation into a more market-friendly organization was solidified in 1982, when Clausen appointed Anne Krueger, a leading critic of state-led development efforts, as the Bank’s chief economist.

At the same time that Clausen was pushing the Bank to the right, the Reagan administration staked out a confrontational posture toward the global south. Speaking at the World Bank–IMF annual meetings in Washington, DC, in September 1981, Reagan argued strongly against state-led development strategies. “The societies which have achieved the most spectacular broad-based economic progress in the shortest period of time are not the most tightly controlled, not necessarily the biggest in size, or the wealthiest in natural resources,” Reagan declared. “What unites them all is their willingness to believe in the magic of the marketplace.”46 The following month, Reagan squashed any hopes for a NIEO by informing developing country leaders gathered at a development summit in Cancún, Mexico, that the United States was firmly opposed to southern demands for sovereign debt relief and greater representation in the World Bank and IMF.47

Global events soon brought the Bank and the United States even closer. When the Mexican government suspended payments on its external debt and touched off an international debt crisis in 1982, the Reagan administration looked to the Bank to help manage the aftermath.48 U.S. officials were primarily concerned about ensuring the stability of U.S. financial institutions, but they also saw the crisis as an opportunity to promote market-oriented reforms in developing countries. Accordingly, in the early 1980s they pushed the Bank to expand its SAL program. The Bank’s leadership
obliged, and the organization soon emerged as a vital tool in the Reagan administration’s efforts to promote free-market reforms in the developing world, as the adoption of Bank and IMF-adjustment measures became a condition for bailout funds.49

What followed was a period of significant hardship for the global south. In Latin America, the epicenter of the crisis, per capita income declined by an average of 0.5 percent per year during the 1980s, down from a yearly average of 2.5 percent to 3 percent between the late 1930s and 1980.50 Latin America’s “Lost Decade” extended well into the 1990s: the region’s per capita income did not recover to its precrisis level until 1994.51 Although their external debt was held mainly by public institutions like the Bank, many African countries also underwent a painful adjustment experience. Beginning in 1980, per capita growth in sub-Saharan Africa fell to nearly 1 percent per year, and by the end of the century most countries on the continent were poorer than they had been at the start of the debt crisis.52

Economic growth was not the only thing that was lost during the Lost Decade. With their insistence on reducing the level of government intervention, Bank and IMF-adjustment programs marked a thorough repudiation of development approaches in which the state served as a guarantor of social welfare. Although adjustment programs were unevenly implemented, their existence signaled a retreat from the development vision of the postwar era in which governments would both guide the development process and ensure that the costs and benefits of growth were evenly shared.53 In this way, the Bank, which had ignored the NIEO out of a desire to avoid involvement in political issues, became a key player in an explicitly political project to promote the global spread of the market.

NOTES
19. Ibid., 178.
20. Minutes of the Meetings of the President’s Council (hereafter PC), May 6, 1974, McNamara Papers, President’s Council Minutes, box 1, World Bank Group Archives (hereafter WBGA).
21. Ibid.
23. PC, December 4, 1978, McNamara Papers, President’s Council Minutes, box 2, WBGA.
27. Robert Hormats, National Security Council memorandum for Brent Scowcroft, January 20, 1976, Subject: Nigeria: Treasury Intends to Oppose IBRD Lending, *Foreign Relations of the

30. PC, July 12, 1976, McNamara Papers, President’s Council Minutes, box 2, WBGA.
31. PC, January 9, 1978, McNamara Papers, President’s Council Minutes, box 2, WBGA.

Some developing country officials had voiced these concerns earlier.

32. PC, January 9, 1978, McNamara Papers, President’s Council Minutes, box 2, WBGA.

34. PC, March 7, 1977, McNamara Papers, President’s Council Minutes, box 2, WBGA.
35. Statement by McNamara to the Executive Directors’ Meeting, June 23, 1977, in IBRD/IDA 03–04–12S, box 2, WBGA.

36. Ibid.
37. Ibid.
39. PC, January 9, 1978, McNamara Papers, President’s Council Minutes, box 2, WBGA.
40. PC, February 27, 1978, McNamara Papers, President’s Council Minutes, box 2, WBGA.
41. Ibid.


47. Toye and Toye, “From New Era to Neo-Liberalism,” 177.
49. Walden Bello with Shea Cunningham and Bill Rau, Dark Victory: The United States, Structural Adjustment, and Global Poverty (London: Pluto Press, 1994); Donald Edward Sherblom,


