Spurred by decolonization, fueled by the profusion of foreign-aid dollars and the dominant Cold War imperative of making allies of the newly independent countries, a vast development enterprise was born. It was made up of governmental donor agencies, private foundations, international development banks, universities, and research institutes, along with ministries of finance, industry, and development. Amid this constellation, one institution was central—the International Bank for Reconstruction and Development, otherwise known as the World Bank. It was the pivot around which policies and funding were put into place, and around which the debate was organized.

The World Bank was created at the Bretton Woods conference in 1944 to coordinate the awesome job of economic reconstruction in what would soon be postwar Europe. But its mandate quickly expanded—exactly as its founders, including Keynes, had intended—to investing in the infrastructure of developing countries. Its first loan to the Third World was $16 million to Chile in 1948, for power-plant and agricultural machinery. It made its first loan to Asia (excluding reconstruction loans to Japan) in 1949—to India, for a hydroelectric project. Its first loan to Africa came in 1950—to Ethiopia, for communications equipment. By the early l950s its focus had fully shifted from "reconstruction" in Europe to "development" in the Third World. Its basic mandate was to raise multilateral finance from the capital markets of developed nations and use that money to make long-term loans on concessional (i.e., very favorable) terms to the public sectors of developing countries. Those loans would be secured by repayment guarantees from the developing country. Thus the bank would get capital flowing across borders —old and new. But it had to start from almost nowhere, for "the pattern and flow of international investment were ruptured beyond recognition by the Great Depression and the second world war."

The World Bank's role was to help ensure that the conditions for market development were in place. Its lending was meant to correct market failure—or what might even be called market absence. That is, it would fund the nonexistent or sorely lacking infrastructure that was required for the development of market economies. Thus, most of its funding went for transportation (ports, roads, railways), communications, and, above all, electric power—often by means of large hydroelectric dams. Such infrastructure, the bank said, was "an essential precondition for sustained economic growth." It was driven to this orientation by, in the words of the bank's historians, "a series of emergency situations." Power shortages were endemic in Asia and Latin America; in Africa, there was little infrastructure at all. It was easier for Brazil to import potatoes into Rio de Janeiro from Holland than to ship them from a hundred miles inland. Deliveries by the Indian railway system were weeks and weeks late. How could private entrepreneurs be expected to make investments and take risks in the face of such obstacles, uncertainty, and disorganization?

The World Bank stepped into this role because the developing countries could not mobilize sufficient domestic savings to get such projects done. Foreign investors could not count on a sufficient rate of return to be attracted to such projects. Moreover, foreign capital was not very welcome during this era of "nation building." Private investment in what were seen as critically important infrastructure projects meant either foreign management and foreign enclaves and the repatriation of profits or further enrichment and power for a few families that were already very rich.

If there was a single model in the mission of the World Bank, it was America's Tennessee Valley Authority, a public enterprise devoted to a great need. The TVA was efficient, with a powerful sense of mission and sufficient scale to be effective, insulated from politics and corruption, a generator and focuser of skills, and capable of the longer view. It had succeeded mightily in the middle South of the United States, and its first leader, David Lilienthal, was the living expression of the dedicated, disinterested, capable public servant who could effectively, and even brilliantly, operate at the intersection of public and private interests. As with the TVA in the United States and the state companies in Europe, so state-owned companies would be the means of development and modernization in the third world.

The image of the TVA fit the charter of the World Bank. The bank could lend only to public agencies, and better than ministries were semi-independent state-owned companies that would mobilize skills and capital to the achievement of important national objectives. Moreover, the bank wanted to encourage scale and efficiency, just as the creation of the TVA had done. And with the passage of time, it became increasingly open to working with state-owned companies in areas other than infrastructure—for instance, industry and finance. The World Bank did create an affiliate, the International Finance Corporation in 1956, to make loans to private-sector companies, but it played a small role for many years.