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Transcript of interview with

JACQUES J. POLAK

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Interview by: Devesh Kapur

*Jacques Polak
October 25, 1991 – Final Edited*

FOREWORD

The following is a transcript of an oral interview conducted by the authors of the World Bank's fiftieth anniversary history: [John P. Lewis, Richard Webb and Devesh Kapur, *The World Bank: Its First Half Century*, Washington, DC: Brookings Institution Press, 1997.](#) It is not a formal oral history, and it is not a systematic overview of the work of the person interviewed. At times the authors discussed the planned publication itself and the sources that should be consulted; at other times they talked about persons and publications extraneous to the Bank. Some interview tapes and transcripts begin and end abruptly. Nevertheless, the World Bank Group Archives believes that this transcript may be of interest to researchers and makes it available for public use.

Jacques Polak
October 25, 1991 – Final Edited

[Begin Tape 1, Side A]

KAPUR: I am sorry. You were saying about . . .

POLAK: I was talking about the reform exercise after the Smithsonian, you know, in the summer of 1971. There was a very strong feeling that, already at the preceding annual meeting, that after all this was seen, there was a very strong feeling that the Fund ought to engage in a reform exercise. The system ought to be reformed, and the natural group that wanted to start to do this was the Group of Ten, but the Americans didn't want that. The Executive Board was considered too low on the totem pole for this purpose.

The Americans were trying for a different structure, but they wanted differences in two respects: they didn't want it to be in the G-10, and they didn't want it to be too closely related to the Fund. And they were toying with a group of eight or ten or twelve, which would be the largest industrial countries plus Brazil, India, Australia, something like that. And it took us half a year to persuade them that such a body would have no status, no legitimacy. If Brazil were there, it could speak for Brazil but for nobody else, and that the only possible solution was a body appointed by the Board of Governors, not co-opted by the Americans, and then it had to reflect, if you want it about that size, it had to reflect the Executive Board. But it was a major effort. We in the staff saw that right away, but to persuade the Americans that's the only place they could go to.

Now, the second thing the Americans wanted, they didn't want this thing to be serviced by the IMF staff. And there is a wonderful anecdote of a meeting where *[Paul]*¹ Volcker came to explain this to the Managing Director, and Joe *[Joseph]* Gold, the general counsel, and I were present. And Volcker said to the Managing Director, "There's one thing I want you to understand. I don't want to be in the position where Gold tells me what the law is and where Polak tells me what the economics is." And *[Pierre-Paul]* Schweitzer gave the wonderful answer, "I'm sure it wouldn't be difficult to find two less competent persons." And so you got this structure of a bureau which was set up, headed by Jeremy Morse, who is an American, and a Japanese and two other people.

KAPUR: I see.

POLAK: The Fund staff sort of half associated, and more or less parallel developments in this unwieldy committee of 20—which meant a few hundred people--and the Executive Board. In the end whatever little came out of this whole exercise was all done in the Executive Board with the Fund's staff.

KAPUR: Now that of course had almost no externality as affected the Bank.

POLAK: No. [both speaking at once]

¹ Original transcript by Brookings Institution World Bank history project; original insertions are in []. Insertions added by World Bank Group Archives are in *italics* in [].

KAPUR: That was completely a Fund thing. But do the quota increases in the Fund, like this time--I guess for the first time--because the size of increases of the Bank for GCI [*general capital increase*] and the Fund, they wanted to--I think they were trying to coordinate it so as not to hit the U.S. Congress at the same time.

POLAK: Oh, well, that's a parochial U.S. question, and that was really not observed at any stage except in the final stages, in the deadlines, for instance.

KAPUR: I see.

POLAK: So the Fund accommodated the Bank by putting its deadline so that it could fall in the next U.S. fiscal year. But that's nothing between the two institutions, really.

KAPUR: Although now it seems as if it was more because the U.S. Congress, it seems to have become more and more of a—shrill, almost.

POLAK: Yes, the quota exercises both of the Fund and the Bank [*inaudible*] are always extremely difficult in the U.S. Congress. You always get these questions: can do it just before an election, or can you do two in the same year, and all that kind of stuff.

KAPUR: But otherwise, other major Fund things other than this thing of the G-5 and G-7 where you see the battles between both institutions, one has not--in your memory--things which have happened there have not really affected here.

POLAK: No, of course they--my main subject is how they have moved to the middle of 19th Street and begun to invade each other's territory. And then you get these questions of overlap jurisdiction and all these unpleasantnesses, sad to say.

KAPUR: Right. John [*Lewis*] was saying he is chairing some—in a more advisory capacity--the North-South Institute in Canada, I guess, Ottawa, is doing a major study, a fairly major study on the regional development banks, and, you know, because he was involved in this study they thought he could be on the advisory board of that study. But it is interesting when he went there, he was saying, how you see it sort of vis-a-vis the RDBs vis-a-vis the World Bank, a sort of, you know, "big brother" effect. They're being overwhelmed almost.

POLAK: The regional banks by the World Bank? Yeah.

KAPUR: A sort of larger, more . . .

POLAK: Because the thing I've been wondering about is that if you think the Fund and the Bank are to some extent overlapping, how about that combination. That seems to be . . .

KAPUR: Did that occupy--because you know now in the next few years, for example, net transfers in Latin America by the IADB [*Inter-American Development Bank*] will

exceed those by the World Bank. I've seen those figures, and so it's not as [both speaking at once] which mean that it's not as small relatively. Things have begun to change, but one still has a perception of a much more overwhelming dominance in the larger sense of the World Bank vis-à-vis these institutions. I was wondering, I mean, the Fund really did--except for minor things about flows and so on--the regional development banks were really not at all in your [both speaking at once]

POLAK: No, not at all. No. We didn't look too much at the World Bank, let alone . . .

KAPUR: Exactly. It's an interesting thing to pursue about why the Japanese--our sense is that the Japanese have really, when it comes to pursuing their interests in these two institutions and when that seems to at all conflict with bilateral relations with the U.S., the latter is far, far more important.

POLAK: Uh-huh. Yes.

KAPUR: That's what the impression is. I don't know what the reality is.

POLAK: The Japanese on this occasion for the first time in the Fund's process have been pushing for a much larger quota. I was part of the Board at the previous exercise, and I tried to goad my Japanese colleague in being a bit more aggressive, but he wasn't at all. And on this occasion I guess the U.S. didn't mind.

KAPUR: Last time?

POLAK: No, this time.

KAPUR: Oh, I see.

POLAK: I don't know how they felt the time before, but this time I don't think this was--the U.S. was difficult about the Japanese.

KAPUR: But you think that in fact the difficulties might come from the other G-5 members?

POLAK: Well, they were, but the Japanese six or seven years ago were still so timid that they didn't even test the waters at that time. This time, of course, moving the Japanese up meant moving the British in particular down; but this happened--supported, I think, by the U.S.

KAPUR: But this next quota increase--the shares have already been put in place or that is still to be worked out?

POLAK: Well, the current quota increase, yeah. This has been all negotiated.

KAPUR: Oh, it's already all set.

POLAK: Yeah, it's all set, and the Japanese have become, together with the Germans, numbers two and three. That wasn't so very difficult, but the British and the French have become four and five, equal amounts. That was very difficult because they both felt that they were better than the other one.

KAPUR: Although don't the Italians have supposedly a GNP equal to that of the U.K.?

POLAK: But it isn't only GNP. The trade of both Britain and France are still bigger than that.

KAPUR: Oh, I see. So that is--I didn't realize that. What is the--how are the weights worked out? I was just thinking . . .

POLAK: Oh, it's a very complicated thing. There was a formula agreed at Bretton Woods which involved national income, exports, in addition exports as a percentage of GNP, reserves, and variability of trade. The difference between the '34 exports and the 1938 exports [*inaudible*] and that formula has been refined as variability has been made different. The weights have changed, and we now work with five formulas, toss them up in the air and so on. But the most important thing is that in all these exercises the existing quotas get quite a large weight in the new quotas. The new quotas--and this was done--the only time when it was done wholly scientifically and the same for all countries was the previous quota exercise. And there the formula was that the new quota is X times the old quota plus Y times the calculated quota. And Y is so small that the movement, the adjustment towards current reality is very small. And the British stayed on top even though they are by no means--were by no means number two in the world anymore. And the Japanese stayed down because of this slower [*inaudible*]

KAPUR: Oh, I see. [*inaudible*] a minor quota exercise, you know, sort of triggered off by looking at the figures of, say, China and India's per capita income. You see the world development figures quoted, and everyone sort of quotes that, you know. It shows from 1965 to the past 25 years, per capita income of China has been increasing three times as much as India's, and yet it shows India's per capita income greater than China's. And now it's the other way around, about \$10 more.

POLAK: Yes. Is China only slightly above India still?

KAPUR: Absolutely. It's 320 and 330.

POLAK: I see.

KAPUR: And, you know, it seems rather odd, to put it mildly.

POLAK: Yes.

KAPUR: Of course, one can rationalize it by exchange rate fluctuations and this and that but also you have a sense that there was a lot of arbitrariness when China joined to fixing its base. But what I've been—you know, then you sort of got a little bit interested in why the Bank has not got more into using PPP [*purchasing power parity*] figures, purchasing power [*inaudible*]

POLAK: But they have to some extent, or at least the average and things like that.

KAPUR: Right, but I guess it's, of course, a statistical nightmare—it's not a nightmare, but it's a real [*inaudible*] There are lots of problems and so on. But if one does recognize that per capita GNP figures are biased against poorer countries, that's a general sense. Now we've just been wondering: if we're looking at the quotas in the Fund and the shares in the Bank, to the extent that the rates of GNP matter, if the GNP were computed in terms of PPP, how would the shares change?

POLAK: Yeah, well, the Fund must have studied this; and, again, in the previous quota exercise the Fund runs through a big business as to whether it shouldn't use, I think, purchasing power.

KAPUR: Oh, really?

POLAK: Oh, yes. I think it ran through a lot there. There is a large documentation on it, mostly [*inaudible*] But of course the Fund has been biasing its--the quotas for the LDCs [*least developed countries*] very much towards the LDCs, partly by these [*inaudible*] formula because--well, the case of India is very interesting. India got a quota at Bretton Woods; there was some calculation. Pakistan split off. Bangladesh split off Pakistan. India kept the same quota. In terms of trade and GDP the investor countries moved much more rapidly, whereas the formula continues to be a very slow adjustment. So the Indian quota, while it's not based on PPP income is nevertheless really very high if you accept this formula. But there were then proposals to adjust for all these things, and they got nowhere.

KAPUR: And I guess here in the Bank smaller countries get [both speaking at once]

POLAK: Well, on the very small countries there are some funny adjustments as [both speaking at once]

KAPUR: . . . a fixed number of shares.

POLAK: So all these very small islands get a little bit more [*inaudible*]

KAPUR: In a real sense, if you were to indeed use PPP, the actual changes would have to . . .

POLAK: Well, it would--if you were to use PPP, yes; but if you were to use their current incomes, that would lower it very much. And in fact the trouble is all the recent

quota exercise does, unless you do something to distort the calculations or make very little adjustment, you always push the LDC vote down. Now, that's being partly compensated by the number, the Africans and all that.

KAPUR: But even then, I mean . . .

POLAK: Well, the LDC vote has gone up, yes, in the Fund.

KAPUR: Not in the Bank.

POLAK: Oh, uh-huh, yeah.

KAPUR: That's interesting to see that in fact the shares have gone down. This is supposed to be more a development institution.

POLAK: Yes, yes, but of course a development institution presumes donors and donees, and ultimately the donors want to have the say in what they give. And of course this has been--there have been all these studies by various groups on the voting share and these proposals that they should be 50/50, but there was a very interesting report by the Commonwealth Secretariat, and it was done by--it may have been done by I.G.Patel, but I'm not sure, or somebody else--arguing that the LDCs didn't have any benefit in raising their voting strengths in the Fund and the Bank very much; look what they get out of the U.N. where they have all these votes! And that would take, I mean, a little increase in their voting strengths to ruin the 2 institutions and make them like the U.N.

KAPUR: Absolutely, I think that . . .

POLAK: It wasn't Patel; it was somebody else who did the study [*inaudible*]

KAPUR: When do you think it was drafted?

POLAK: Oh, ten years ago, I would say. It was a Commonwealth study. It may have been done by Rashpal(?)

KAPUR: Yes, I . . .

POLAK: It may have been done by him.

KAPUR: Well, I guess the argument is more valid in IDA [*International Development Association*] than IBRD [*International Bank for Reconstruction and Development*] because there are no really donees in IBRD, strictly speaking.

POLAK: It's because you pay market rates, yeah, but market rates are subsidies compared to real market rates.

KAPUR: It's really IDA where it's really . . .

POLAK: Yes, yes.

KAPUR: Otherwise--the one thing which we're trying to document is how much has the U.S. really given to IBRD? If you really look at . . .

POLAK: [both speaking at once] of course . . .

KAPUR: . . . and even if you take them by, you know, the volumes, the net volumes of dollars of money raised in U.S. markets and also in terms of currency, *[inaudible]* dollars, it's really, I mean, it's a pittance.

POLAK: Well, but the volume raised in the U.S. market is no cost to the United States anyway. This is a market.

KAPUR: And even, you know, because in the early '70s they were . . .

POLAK: The U.S. blocked.

KAPUR: Right.

POLAK: Yeah, yeah. Well, this was the capital control in the United States. They were worried about their balance of payments.

KAPUR: Exactly. But other than that the real cost of IBRD borrowing for the U.S. has been virtually negligible--to the contributions which come, come primarily from the capital, the paid in capital.

POLAK: Yeah. Well, this is very marginal.

KAPUR: Which is very marginal. And then if you take, if you impute a certain, if you impute both the thing in procurement and the administration *[inaudible]*.

POLAK: Yes, but if you deduct procurement, that's again sort of [both speaking at once]

KAPUR: No, a sort of subtraction. It's building in, say, 10 percent of total procurement contracts, if you use . . .

POLAK: Yes. Oh, on the grounds that that's the, probably, the profit.

KAPUR: At most. And sort of saying, you know, and say administrative expenses, which is really—they almost spend about a million dollars a year, which is not [both speaking at once]

POLAK: Yes, that is--I mean, all this is sort of perverted market [both speaking at once] When you have administrative expenses, you buy your coffee in the cafeteria.

KAPUR: Exactly. So you are getting a real thing. But one can either do it in terms of just balance of payments, only to see the outflows. So all outflows in dollars, which includes all IBRD net borrowing in dollars, and all inflows which come in through procurements and administrative expenses. And even then you find that just on a solely BOP [*balance of payments*] thing it's a net inflow, let alone, I mean, let's forget the actual burden of shares. It's more I think to counter the perception, you know, especially in the U.S. Congress, that they always give this huge amount of money, you know, that, look, we are subsidizing these fat cats. But really, I mean, they're hardly putting up anything. So I think it's more, hopefully, to look at the numbers.

POLAK: I know.

KAPUR: You're doing really not much more than almost anyone.

POLAK: Yes.

KAPUR: But anyway, I'm sorry I got a bit carried off.

POLAK: No, no, that's fine. Well, the thing I wanted to come to talk about is Reagan . . .

[End of Tape 1, Side A]

[End of Interview]