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TRANSCRIPT OF INTERVIEW OF

JACQUES J. POLAK

BY

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LOUIS EMMERIJ: The 15th of March, five minutes past ten. We're in a beautiful office. Dr. Polak, you have been in this building for fifty-three years.* You were probably one of the first people to join the IMF (International Monetary Fund).

JACQUES POLAK: Well, I haven't been in this building for fifty years, because this building is only thirty years old. I've been in the IMF for more than thirty years, on and off, mostly on, of course, since early 1947. I wasn't by any means the first employee. The Fund started hiring people in the summer of 1946. By the time I joined, which was early 1947, there was already a respectable staff doing interesting work.

LE: Is our colleague from Brazil, Mr. Kafka, still around? The two of you must be—

JP: He isn't at the Fund quite as long. He was for a short time on staff in 1949 or so. Then he left and came back as a member of the executive board, late 1950s or early 1960s. He just recently retired from the executive board. He has an office just like I have, courtesy of the IMF.

LE: You two must be the only ones who get this courtesy, because it's a wonderful place.

JP: We're the only ones for now.

LE: You are the two living myths, the living "*l'histoire vecue*," as Jean-Paul Sartre would say. Dr. Polak, you were born in 1914, and you spent your first twenty-three years, as I understand it, in the Netherlands.

JP: No, I spent my first three months in England.

LE: You were born in England?

* Tatiana Carayannis was present throughout the interview.

JP: No, I was born in Holland, but very soon after, my father went to England to finish his study of accountancy. That study was interrupted by the war, and so, in August 1914, we went back to Holland.

LE: This was the First World War. Do you still have memories of that now?

JP: No, but I do have a pram permit for Kew Gardens, where I was rolled around, apparently.

LE: Then you went to primary school, secondary school. You did your university studies there and your doctorate. Could you tell us about this early life of yours—family background, primary school, and secondary school? Were there people who were kind of an example for you, both at secondary school and at the university? Were there people you looked up to whom you have remembered for the rest of your life, or not?

JP: School, up to the time I went to the university, was in Rotterdam. I went to city school first, then to a private school started by a group of parents. After that I took the admissions exam to gymnasium. I took six years of gymnasium.

LE: Erasmiaans Gymnasium?

JP: Erasmiaans gymnasium, yes. I was there when they had the six-hundred-year jubilee, which is fantastic about Erasmus. He started the school 150 years before he was born. Of that school the memories are all very pleasant. They have recently been refreshed with respect to the history teacher, Mr. Jakobsen. A book was recently published about his role in the school. He was a very impressive teacher of history, but I wouldn't say he left all that much of a lasting impression. Then I wanted to study economics, with the idea of joining my father in his accountancy firm. That subject was taught as a postgraduate study to economics in both

Rotterdam and Amsterdam. My parents thought that studying away from home was a good thing, so I went to Amsterdam

LE: Who were the great professors in Amsterdam in those days?

JP: Generally, there weren't all that many professors. Now there's a list of fifty or a hundred professors. Then, there were five or six. Frijda was the professor of general economics, which you would now call macroeconomics. He didn't have a world name, but he was quite well-known in Holland. Better known was Limperg, who came out of the accountancy and taught Bedrijfs Economic—business economics of a sort, much overblown as to its importance and its theoretical background. It didn't impress me all that much. He tried to make it look very impressive, but it didn't impress me all that much.

LE: Were there any fellow students who became well-known?

JP: I joined Amsterdam University in 1932. That was the year [Joseph] Luns joined. And Emile van Lennep, and a third friend of mine, [Aron] Broches, who later became the general counsel of the World Bank, and who died last year.

LE: Right. So, we had the future minister of foreign affairs of the Netherlands there. We had the future secretary-general of the OECD (Organisation for Economic Co-operation and Development) and the treasury-general of the Ministry of Finance.

JP: And the general counsel of the World Bank. Probably there were more.

LE: Tell me, were they bright, these two or three?

JP: Yes. They were all three.

LE: You would not say that there was a professor or teacher, who has—

JP: Well, there was [Jan] Tinbergen of course, who only came there later. I'm not quite sure when Tinbergen started teaching in Amsterdam. He was appointed first in Rotterdam. Then in Amsterdam he taught, initially, as an assistant professor.

LE: That's right. He started teaching in Rotterdam in 1929, and in the early thirties he started teaching in Amsterdam.

JP: I think after '32. I started going to his classes as soon as they became available.

LE: You will talk about Tinbergen a little later, of course, during your Geneva period. But, there has not been a person or an idea that struck you forcefully during this difficult period?

JP: This was a difficult period. This was the period when the fight between the Rotterdam school and the Amsterdam school was fundamentally about whether the guilder should be devalued or not. I did my final exams a few days after the devaluation in September '36. My teacher, Frijda, had always been against it. The people of Rotterdam had been in favor of it.

LE: That has made an impression on you, this fight?

JP: The impression was made not so much by the university but by the surroundings in Amsterdam, which was a city with lots of unemployed and some degree of revolutionary feeling against the whole establishment. Against [Hendrik] Colijn, so to say.

LE: Right, the famous Colijn, prime minister of the Netherlands during the Great Depression. So, you lived through the Great Depression at a very sensitive and receptive age. You were a young man.

JP: Of course, that is what made economics far more interesting than accountancy. When I had finished my Doctoral degree, my Master's degree if you want to put it in proper English, I

gave up the idea of going on in accountancy. I wanted to go on in general economics as a relevant subject, relevant to the world as it then was.

LE: You switched to this like Tinbergen, who turned—

JP: Tinbergen turned from physics—

LE: —from theoretical physics to econometrics.

JP: Yes.

LE: Also mainly because of the social circumstances. You have that in common. So, from that day onwards, because of these terrible events, you decided to become an economist.

JP: Yes, of course the structure in Amsterdam, and Rotterdam too at that time, was in a sense awkward. You had to do a complete study of economics before you could start accountancy. Accountancy was a postgraduate subject, and of course it had very little to do with everything that went before graduation. In fact, I did take one year of accountancy, and I was very bored by it.

LE: You wrote your dissertation then. What topic was that again? *Public Works as a Form of Business Cycle Policy*. That was the thesis. Look at this. Beautifully printed. Who taught you econometrics?

JP: Tinbergen.

LE: Already Tinbergen?

JP: Yes, but he was not my promoter. This was Frijda, the general economist. He suggested this subject too. I was inclined to take a more abstract subject, and he suggested, “Why don’t you look at this famous article by R.F. Kahn,” *Economic Journal*, 1931.

LE: “The Relation of Home Investment to Unemployment” is the title.

JP: That leads to, in a sense, the title of this thing. Since I'd been taking econometrics with Tinbergen, I could go well beyond Kahn to the general models of the whole economy that Tinbergen was just developing and then comment on this subject in its broader context.

LE: So, that meant you were still influenced by the period through which you lived—the Great Depression.

JP: Yes.

LE: So you could call yourself a Keynesian, then?

JP: I was a Keynesian.

LE: You were very much a Keynesian on government intervention. If I may jump a little bit, how have you evolved in that respect?

JP: It is very difficult to answer that question, but to a large extent, how do you define a Keynesian? As far as the analytical approach is concerned, I would say I still share these original ideas that everybody shares. For example, the *World Economic Outlook*, produced by the IMF, is fundamentally a simple Keynesian model of original impulses working themselves through the world economy. It's later that I became interested in the role of money. In my early period in the IMF, I started, in a sense, to integrate the role of money into the Keynesian analysis. The kind of stuff I did twenty years later in the IMF is an integration of this dissertation.

LE: I think it's very interesting that you address this cross-fertilization of Tinbergen, R.F. Kahn, yourself. Okay, there you were, you had finished your dissertation. We are now in 1936?

JP: I got my degree in December 1937, my Doctor's degree. But I got my job from Tinbergen a few months before that.

LE: You had to go back to Amsterdam to defend your thesis.

JP: To defend it, and to get married, all within one week.

LE: You killed several birds with one stone. There you go, 1937 we are—you're going to Geneva.

JP: I went to Geneva not in '36, but October '37.

LE: Was it Jan Tinbergen who called you?

JP: Yes. He offered me a job. The job market in Holland for economists was pretty miserable at that time, as the job market for everybody was. I was thinking of trying to get a job teaching economics in a secondary school or something of that sort. Then out of the blue, I got a letter from Tinbergen, offering me a job as his research assistant.

LE: For this business cycle study he did for the League of Nations?

JP: Yes.

LE: He was already there? He started in '36?

JP: Yes. In fact, I visited him there to talk about my thesis.

LE: He must have been impressed by you as a student and you must have been impressed—

JP: I consulted him on this once in Geneva on my thesis, when I took a day off from skiing in Adelboden to go to talk to Tinbergen, and also in Holland in Nunspeet, where I visited him. I guess he read pieces of the thesis. By the time he offered me the job, he hadn't seen the whole thing yet, because it wasn't finished yet. But he had seen parts of it.

LE: You jumped on the occasion I suppose?

JP: It was a much better offer than anything I could expect, financially, but from any other point of view as well. To work with Tinbergen was absolutely fascinating.

LE: Jan Tinbergen was then thirty-three, thirty-four years old.

JP: Yes. He was about ten years older than I.

LE: Yes. I remember when he came over to Geneva when I was there in the early seventies. He asked me, "Can you drive me to see the old house where I used to live?" So, he obviously had very good memories. How was it to work with this young man, brilliant in many respects?

JP: It was absolutely fantastic.

LE: You would consider him your—

JP: He, together with [Ragnar] Frisch, started this absolutely new branch of economics that started within the decade, five, six, seven years earlier, which meant that he was discovering new possibilities of this everyday. I had the good fortune, for reasons which I never quite understood, that they put me in his office at a little table right next to his desk. If he had an idea, he could mention it to me. If I had a question, I could ask him. The whole subject unfolded. Nobody had done any econometrics on any important scale, so almost any subject, there was a possibility to collect numbers, try equations, try to do some interesting explanations. Sometimes he would do them himself. Sometimes, if he thought they would take too much time, and he was a very good estimator of that, he said, "It isn't worth it." He would take no more than ten hours to write an article. He wrote articles extremely fast. Handwriting, of course. Final. And I got all that stuff over me. It was absolutely wonderful.

LE: What would be the one or two things you learned from him, both professionally as well as on a personal level, for instance?

JP: Professionally, I learned all the econometrics I know. He was the only one who taught some of it in Amsterdam. I got most of it, actually, in Geneva and working with these

things. At that time I was much more adept at econometrics than I am now, and of course econometrics has run so far away that it doesn't mean anything to me anymore.

LE: As a person how was he?

JP: As a person, he was extremely nice. Considerate, soft, and extremely socially conscious.

LE: True. How has this relationship between the two of you evolved over your lifetime? He lived to become—

JP: He lived to ninety-three. When he visited the United States, we would see each other. He stayed with us. For example, in 1947 was the first postwar conference of the International Statistical Organization in Washington, where he stayed with us. He stayed with us on subsequent occasions. He, his wife, and the youngest daughter as well. When we were in The Hague, we always went to visit him. I saw him last on a visit to The Hague in '93, I think.

LE: I ask the question because, of course, Jan Tinbergen has always had his heart in the United Nations. We'll talk about the Bretton Woods institutions and how they related to the UN, but, you were, of course, more the Bretton Woods man.

JP: I don't think he was all that much interested in the IMF as an institution. His interests were in the UN; he worked for the World Bank for some time.

LE: But not in the very beginning?

JP: No, he did some job for them.

LE: Did you ever have substantive discussions about the respective roles of the United Nations vs. the Bretton Woods institutions?

JP: I don't think very much. But just to fill in on, "when did I see him again," the first time I visited Holland, after the war, was in August 1945. I happened to be in England, in

connection with my job at UNRRA (UN Relief and Rehabilitation Administration) at the time, and I managed to find a way to visit Holland. Then I went to see Tinbergen with a knapsack full of cans of meat and other things. I told him, "This is meat. I know you're a vegetarian." His answer was, "We've made that decision; it was either us or they." This is how close we were.

LE: One of the few violent expressions he has ever said.

JP: Well, it's not very violent.

LE: Jan Tinbergen hired you at the League. You stayed in the League even when it went to Princeton.

JP: Yes. I stayed over when he left. In fact, he left quite soon. He left before the second book was finished. I, sort of, put the finishing touches on it. I worked on the French translation, those kinds of things. My next boss was Tjalling Koopmans, who succeeded Tinbergen. We started a similar study on the United Kingdom, a comparison study to the one to the United States. That didn't get very far, and Koopmans didn't have the same interests as Tinbergen had. Tinbergen was very much interested in results, fundamentally, very little interested in econometrics. It was very much a tool for him. He didn't want to get deeply involved in the technical aspects of it. They didn't really interest him.

LE: Tinbergen left. You became a regular international civil servant?

JP: I remained, my job just went on. I was hired not by Tinbergen but by the League.

LE: The League had all these difficulties in the political field, but in the economic field they have done quite a bit of good and solid work.

JP: They were really quite prominent. In the late thirties when the League was in desperate shape, the economic secretariat was considered to be first-rate. For example, the Rockefeller Foundation put its money there. This business cycle stuff was financed not by the

League but by the Rockefeller Foundation. Everybody who was anybody in economics came through Geneva. The way they would now go through Chicago maybe, or Washington. I met a lot of these people.

LE: Who was the head of the economics department?

JP: Loveday. Alexander Loveday. A British civil servant, who did some very good work in hiring these rather far-out people. First he hired [Gottfried] Haberler to do a comparison of business cycle theories. Then, on the recommendation of Haberler and others, he hired Tinbergen. It was far out at that time to do econometric testing.

LE: Absolutely. How was your relationship then with the ILO (International Labour Organization)?

JP: On a personal basis, the ILO had interesting economics people. This was the one time when the ILO was doing good economic work, for example, on index numbers. Hans Stähle was there, for example. He was a great friend of Tinbergen and became a great friend of mine. On a personal basis, there were few people in the ILO who did economics. We were on a very good relationship.

LE: The League had [their last conference], the World Economic Conference, in 1933. That was before your time. That was not a real success?

JP: That was a disaster. Because [Franklin] Roosevelt essentially pulled out and devalued the dollar. That conference had as its purpose, in a sense, to restore the solid gold standard. Roosevelt burned that completely.

LE: When did you move with the core secretariat to Princeton?

JP: In the summer of 1940 it became very clear that people in Geneva were horribly isolated, so to say, except from the German world. The Germans were all the way around

Switzerland, a few kilometers away at the Route de Ferney, which is where the Palace was and where we lived. Of course there was always the risk that Switzerland would be invaded. This gave the Americans, who were not members of the League, the idea that it would be a pity if the economic section would collapse or become irrelevant because of its isolation in Switzerland. They didn't care for the rest of the League. The United States government organized an invitation for part of the economic section to move to the United States, got them visas, which was of course the most wanted thing at that time. I'd been trying to get one, but the ordinary person couldn't get that. And they gave them a place to work, which was the Institute for Advanced Studies in Princeton.

LE: How many were you?

JP: The number of people who went was very small. A few came later. A few were hired there and so on. But there weren't more than ten of us who went. I was incredibly lucky to be included in this group because I was, I'm not sure what I was, but I was still a research assistant or a junior economist. I wasn't very senior, that's for sure.

LE: But you had done important work with important people?

JP: I had done important work, but as an assistant.

LE: Tell me, there was also a hardcore group of the 110 that went. But they went to Montreal.

JP: They went to Montreal. The top of the 110, perhaps not a whole lot of 110, but the important part, the top went to Montreal. Of the League, the top did not go. The political top stayed. It was only the economic section. [Joseph] Avenol, the secretary-general, was considered pro-German. Nobody cared anything for the League as an organization, only for its economic section. The top stayed, and I don't know what—they did very, very little. They kept the building

clean, and they issued the publications, to some extent, still. They stored our furniture and everybody else's furniture in the basement.

LE: The ten or twenty economics people who went to Princeton, how were you paid?

JP: The League still existed. In fact, one of them was sort of a pay master who came along.

LE: The most important person.

JP: Who came personally around at the end of the month to give us our checks.

LE: No, not checks. Money. Not money in a bag?

JP: No, there were checks involved. It wasn't much money, I must say. In Geneva, we had what were considered very good salaries. They really were. By American standards, this was pretty miserable. When I came to the United States, I made something like seventeen-hundred dollars a year.

LE: You must multiply it by fifteen probably, to get to present, or at least ten. You were much freer in Princeton I suppose? You could do much more.

JP: In a sense, the tasks were shifted already before Princeton. Loveday made the decision at the time of the outbreak of the war—he's written a few articles about this—that the task of the League should now be to study the interwar period and what had gone wrong during and after the 1914-1918 war and to draw the lessons for future economic collaboration among member countries, and he focused all the work on that.

LE: Do you have the publications of that?

JP: I have most of them at home. For example, the first thing he asked me to do was to do a study on how food relief was organized by [Herbert] Hoover. I did a small publication on

that. Perhaps the most important publication dealing with the interwar period and one that is still cited quite often is by Nurkse. Ragnar Nurkse.

LE: He worked in your group?

JP: Yes, he was part of our team.

LE: Ragnar Nurkse. Fantastic. Look at all these books here.

JP: His name is not on it.

LE: *International Currency*.

JP: That was a famous publication that still deserves reading. It's very good.

LE: *International Currency Experience: Lessons of the Inter-War Period*. Fantastic.

JP: I worked a little bit on that too, with Nurkse, but it was his publication.

LE: The idea was, of course, excellent. What are the lessons from the twentieth century experience, up to that date, for the future? Can you remember one or two salient conclusions that came out of these studies?

JP: These studies were done right through the war and some of the League committees, which had been established before the war, continued functioning, to the extent possible. The Committee on Post-War Depressions, or some title like that, did a very good report which essentially embraced Keynesian economics about the need for cooperative policies, reasonable exchange-rate policies, full-employment policies, cooperation/coordination of policies among countries. All that's in there.

LE: It was already in there?

JP: In the League report which came out in '43 and which you would have a hell of a time finding.

LE: Would you have it at home?

JP: No. The Fund library doesn't have it.

LE: Amazing. What happened, the FBI took it out?

JP: No. But it was published at such an odd time, and if you look at the index of League publications, which is the blue book on the top shelf there, you'll find it. It's a very interesting blueprint of the philosophy and the economic approaches that were incorporated in the IMF and also in the UN.

LE: In Bretton Woods it must have played a role?

JP: In Bretton Woods, but also in the employment policies of the UN. The interesting part of that is that it's often represented as if these policies all came from the Americans: "They imposed all this on the world." It's not true. Of course the English were enormously important in this too, James Meade, for example, who by the way, also worked—

LE: James Meade worked in the League also.

JP: The League, in my time also. He left for England a few months before we left. We stayed in his house when he had emptied it and needed somebody there.

LE: Very Good. Tatiana, remind me that I take the exact title of that famous publication. Have you—

JP: Yes, I've read it.

LE: But you haven't been able to trace it anywhere?

JP: It's in any solid, old library. The Federal Reserve probably has it.

LE: In New York, it must be in the New York Public Library. It would be fantastic to see that. Indeed.

JP: It's really a quite fantastic book.

LE: We'll pick up the title. In 1943, the League died.

JP: No.

LE: When did the League die?

JP: The League never died. The League was transferred into the UN when the UN was established in 1946 and some of the people who were in Princeton. And all of the people in Geneva were transferred to the UN because they got that building together with the—

LE: They were transferred to the UN.

JP: Yes, and they got that building in which obviously everything was in it. Some of the people who were still in Princeton (I wasn't there anymore by that time) moved over, too, to the UN. Most important was probably Martin Hill, who wrote a book in 1946 on the economic work of the League, which is a good description.

LE: You have that?

JP: I have it in photocopy. It's also difficult to find. The Carnegie Foundation published it.

LE: I think this is fascinating, because as you say yourself, the policies that came out of the League were discussed in Bretton Woods and subsequent years. Probably they were already there.

JP: They were the consensus in that League report, which had people in it like Rasminski, later governor of the central bank of Canada.

LE: I did not realize that the League—

JP: The League went on.

LE: You jumped boards. You went to the Netherlands Embassy.

JP: I went to a subdivision or a special branch of the Netherlands Embassy.

LE: Why was this?

JP: Well, the embassy asked me, but I was also keen. The work in the League became repetitive. It wasn't very clear how much influence it would ever have, and I was interested in getting a little closer to the action. Also a place became available in the embassy or rather, to be exact, in the Shipping, Finance and Trade mission which was really a separate branch and wasn't under the embassy but under Steenberghen.

LE: I must laugh because nowadays, of course, if you want action the last place to look for it would be at an embassy. But in those days it was different.

JP: Yes, that is where all the Dutch postwar activities were being planned in the United States. That was there.

LE: Who was the ambassador in those days?

JP: Loudon was the ambassador, but he wasn't really my boss. My boss was Steenberghen, ex-minister of commerce in Holland.

LE: Steenberghen, not Tinbergen. Always somebody with -bergen in it.

JP: He'd been the youngest minister of commerce in '35 or so. He moved to London. He was minister of finance of the Netherlands government in London. He got into a fight with the prime minister and moved out of the cabinet and got this assignment which included connections with the Americans on shipping and getting supplies and all that.

LE: The pay was better than in the—

JP: The pay was probably better, yes.

LE: That also helped. There you are, and all of a sudden there is Bretton Woods, 1944.

JP: The link was most curious in that respect. The first day I reported for duty was on a Monday morning in April 1943. I reported for duty, as a good civil servant would, at nine o'clock in the morning. I didn't know how embassies worked, and my boss wasn't there, of

course, at that point. He would come at ten or something like that. So, the secretary said, "Here's *The New York Times*, would you like to read that?" "Thank you." *The New York Times* had the British and American plan for postwar financial cooperation. They were published separately at that time, both by *The New York Times*. I read both of them. Then my boss, who was a nondescript, embassy man finally came. I said, "I know what I want to do."

LE: What an incredible coincidence. You were an hour early. You picked up *The New York Times* that day, and that day you saw the Keynes plan and then the White plan.

JP: That's right. From then on, I was used for all kinds of other things as well. I got involved in all these preparatory things. For example, there was an international meeting, a whole year before Bretton Woods, in Washington. Smaller, twenty countries instead of forty. There was a Dutch delegation of two people, of which I was number two.

LE: Fantastic. Who was number one?

JP: Crena de Iongh.

LE: Nobody has ever heard of that name.

JP: If you'd been in the thirties in Holland, you would have heard of him.

LE: Sure, the name rings a bell. I'm joking. When was Bretton Woods itself?

JP: July 1944. It lasted three weeks. It was extended. It was not supposed to last more than eighteen days. It lasted twenty-one, or something like that. That was very difficult because the place had been rented out to some other group afterwards.

LE: Now, you were thirty years old then?

JP: Yes, I was thirty years old.

LE: So you were in full creative mind. Of course Bretton Woods has become a kind of myth afterward because at the time—Do you remember how you lived through these three weeks?

JP: Yes, I remember very well, because it was, in a sense—Everybody who came there knew what they were there for, namely, to create an international monetary system that would not have the faults and not produce the failure and the mess that had prevailed during the twenty years preceding. So, people knew what they were there for. They were there for an extremely important purpose, and they were willing to make compromises for that, so, they were willing to agree on a final document. The document had been agreed for a very large percentage between the British and the Americans, together with the input of the other countries I had mentioned, before we came together in Bretton Woods. But there were still a lot of open ends, and it took a lot of difficult negotiation at Bretton Woods to fill in those blank spots.

LE: Were you there when there were these discussions between Keynes and [Harry Dexter] White, or has this been a little bit exaggerated?

JP: Did you see that story in the NRC (*Nieuwe Rotterdamse Courant*) about that?

LE: No, I didn't see that.

JP: I was interviewed over the phone by a Dutch journalist some months ago, and she said, "Were there blow-ups between Keynes and White?" I said, "Not that I know of, and I think the blow-ups took place earlier in preceding meetings." She, nevertheless, put it in that those were in Bretton Woods but that had passed.

LE: In Bretton Woods itself, the differences in the British plan and the American plan had already been straightened out?

JP: Yeah, that was a joint plan. It was a joint plan we met on. There were still differences of opinion and differences of interpretation and so on. After Bretton Woods, some of the British were quite unhappy on some of the more arcane provisions and in fact tried to renegotiate them. You find all that in Keynes's collected works. Well, there were of course differences between the British and the Americans in Bretton Woods, but Keynes appeared at very few meetings. He was certainly not at the Fund meetings. He was the chairman of Commission Two, which dealt with the World Bank. He presided over that session and that was essentially much less important, started later, and had much less time.

LE: Who presided over the other one?

JP: White did.

LE: As you recall the original British plan and the original American plan, is it true to say that the Americans got more than the British?

JP: Oh, yes. Everybody agrees on that. Fundamentally, the British, who were the weaker power, had to give in on most issues.

LE: But if there was already a joint statement at Bretton Woods, what did you need three weeks for? The weather was nice?

JP: We needed—by the way, there were more than three weeks, because there was a preliminary conference in Atlantic City immediately before Bretton Woods.

LE: You were there too?

JP: I was there with my friend Crena de Jongh and maybe some other Dutch, I'm not sure anymore. We did some filling in of blanks there. There were passages which were not agreed or things that were left open, and of course the whole matter of quotas had to be agreed.

Those numbers were not in there. There were many things that were ambiguous, which for months, I know, the other people tried to clarify in one direction or the other.

LE: Anyway, at the end we had an IMF, we had an International Bank for Reconstruction and Development, and we had the plan of an International Trade Organization (ITO), which never made it, of course.

JP: Yes, but that plan was not discussed in Bretton Woods. That was the Havana Conference a few years later for that.

LE: '48, I think it was.

JP: Yes.

LE: That was complementary to Bretton Woods. At the end of that session, did all delegates have the impression that they really had put in motion something that did take into account the mishaps of the interwar period?

JP: I definitely think so. There was this very strong feeling that something big was being achieved. The setting where it was, the isolation, the absolutely beautiful weather. Have you been there?

LE: Never.

JP: The beautiful nature, I recommend it. The informal contact, the lack of diversion. No wives allowed, except for Lady Keynes, who was needed to take care of him because he was in poor health.

LE: She was the Russian prima ballerina?

JP: Yes.

LE: Beautiful woman. I don't know how she looked in 1944.

JP: She wasn't so young any more.

LE: I haven't seen her, to my regret, but everybody talks very highly of her. Okay, so here we are, 1944. You go back in the embassy.

JP: I go back to my job in the embassy.

LE: So what happened between then and 1947 when you joined the IMF?

JP: In that period in between I joined UNRRA—the United Nations Relief and Rehabilitation Administration.

LE: You were a UN man?

JP: Yes. My whole career, except for this very short period at the embassy, was in international organizations. I got more years in international organizations than anybody else, I'm sure.

LE: You should get an extra pension for the League years. They should count double or triple.

JP: They should.

LE: You went back to the embassy, and then joined the UNRRA?

JP: Very soon, in late 1944, and stayed there for a good two years. They began liquidating toward the end of 1946. They had a first run of financing. The formula of 1 percent of national income, by the way, was invented for that purpose. I think it was the first time it was used. The free countries—United States, Canada, and some Latin American members—all contributed 1 percent of national income. That money was essentially spent by late '46. An attempt to get a second contribution failed, because (as Dean Acheson later told me) the Americans decided that they didn't want to continue this form of close cooperation with the Russians anymore. It was the beginning of the Cold War. In UNRRA, there was still close

cooperation between the Americans and the Russians. Real cooperation—Russians in senior positions, independent kinds of Russians as heads of missions.

LE: Where was it located?

JP: In Washington, Dupont Circle.

LE: What was your role there?

JP: I was assistant financial advisor, and then I ended up as economic advisor to the director general.

LE: Was it Jackson?

JP: No, Jackson was the second in command. The first director general was Governor [Herbert] Lehman, ex-governor of New York State, and the second was [Fiorello] La Guardia, ex-mayor of New York City.

LE: La Guardia was there? And Jackson the Australian—

JP: —was the second in command and very much the operator.

LE: The navy man. The hero of Malta. He was the second?

JP: He was a fantastic guy. He had those morning meetings where he sort of went around the circle and asked everybody how much they had done since yesterday. A very impressive guy.

LE: And he stayed that way, as he stayed on in the UN.

JP: He made that report for the UN on the functioning at the UN.

LE: 1969?

JP: Yes.

LE: With [Margaret Joan Anstee]. Okay, now we're coming to the end of our first chapter.

JP: There was one question you raised: “What was the role of the UN in Bretton Woods?”

LE: That’s coming in the second chapter. Give me a second. I have two little questions. The KGB files have shown that Harry Dexter White was a Soviet agent.

JP: That story is not convincing to everybody.

LE: That is why I’m asking you.

JP: I wouldn’t be in a position to have an opinion on that. I knew the man very well, but he would have no reason to tell me.

LE: Assume it was true, and apparently it is beyond doubt by now as you look back at him with that knowledge, certainly nothing in Bretton Woods and in the documents that came out of Bretton Woods, nothing can be seen that he—

JP: Absolutely not.

LE: And in later life—I think he died also rather early?

JP: He became the first American executive director in the Fund.

LE: Correct, and you were there so you knew him well.

JP: And I knew him in UNRRA too. In fact, he was the chairman of a committee in UNRRA of which I was the secretary so I knew him.

LE: And nothing ever transpired?

JP: The Fund historian has written a little piece on this Russian evidence, stating that it doesn’t really prove the point.

LE: Why has the IMF always had an in-house historian? You’re the only organization that has an in-house historian. Was this kind of a preemptive strike to avoid other people’s criticism?

JP: No.

LE: I have not read the histories. I suppose you have?

JP: I've read them all.

LE: Do you think they give an objective view of—

JP: The first history of the Fund, which wasn't written until the late 1960s, which covered the first twenty-five years, is extremely interesting about the pre-Fund period and about Bretton Woods before that.

LE: Wasn't that the wife of a Dutchman? De Vries?

P: No, she did the second one. This one was done by an Englishman called Horsefield. About the Fund itself, it's very dull reading. Then Margaret de Vries did the second and the third, sort of two decades, which are rather more interesting. The fourth one isn't out yet, the one about the 1980s. That is done by, really an interesting guy, James Boughton. It will come out in a year or so. I've talked with him a great deal. He wrote a little article somewhere about this Harry White material.

LE: But they are in the Fund? You think it's a good idea to—

JP: It's worked out alright. It's worked out, in a sense, much better, certainly than the second Bank history which became, more or less, a disaster. It grew and grew.

LE: You are a voracious reader. I've read all the two-thousand pages because I found it fascinating.

JP: It is.

LE: It was a disaster because it was spread out over seven and a half years, because I think they did it in the wrong way. We are doing it in the right way. Here were three people that

had to write over two-thousand pages themselves. Particularly the first seven chapters, done by Richard Webb, I found very good.

JP: But they're repetitive, enormously. If the first history—

LE: Since I lived through a lot of that myself, maybe I was fascinated, and I could find very few mistakes.

JP: I think that's true.

LE: Dr. Polak, we have finished our first chapter, the personal and biographical information. My conclusion would be that you started out as a man of substance and ideas and you—

JP: —and it went all down hill from there.

LE: No. We will see that, later, I think you have continued to be that. You have always been a man of ideas of substance in an international environment where that is not always counted. Maybe the IMF is indeed an exception. Would you agree with that? You started out with Tinbergen, and you continued to do interesting economic work through Princeton. You were at Bretton Woods. You had these two more operational years at UNRRA, and then you joined the IMF. Again you very quickly became the senior economist, director of research. There is a regularity there that started very early, I think. Shall we take five minutes off, then go into chapter two?

JP: Fine.

LE: The professional experience after the Second World War. The first question, which you have already alluded to at the end of the previous chapter, is: how did the Bretton Woods conference originally handle the relationship between the two institutions they were setting up,

on the one hand, and the UN on the other. Of course, the easy answer would be it was all under the United Nations umbrella in the beginning, but what was it felt like at Bretton Woods?

JP: That's, in a sense, the wrong answer. This was the United Nations Financial and Monetary Conference, but the United Nations Organization did not yet exist. There was no UNO because it was created a year later at San Francisco. So there was no issue, somewhere I suppose, in the articles of agreement, it says something that the Fund will cooperate. But no, I'm not even sure it does because there was no United Nations.

LE: There was no United Nations Organization.

JP: The United Nations were the nations allied in the war who were meeting at this conference. A plural. And who was invited there was the League of Nations. Mr. Loveday and Mr. [Ragnar] Nurkse were there.

LE: Nurkse was there as well?

JP: Yes, Nurkse was there.

LE: What was Nurkse's official function?

JP: He was a senior economist in the League secretariat. He was one of my colleagues in the League secretariat in Princeton.

LE: So okay, in 1944 the United Nations Organization was still on the drawing boards. There had been a series of conferences, including here in Washington of course, but, indeed, San Francisco was 1945 and Bretton Woods was in the summer of 1944. The League was represented. Was there any anticipation, because everyone knew then that the United Nations Organization was coming, but it was not explicitly mentioned?

JP: I don't think so. I don't think it was in the Articles of Agreement because there wasn't such a thing.

LE: Could that be the main source why these two institutions have gone their own ways?

JP: I don't think that was the reason. The FAO (Food and Agriculture Organization) was created at an even earlier conference, at the Hot Springs conference in 1943. But the FAO was sort of encapsulated into the United Nations after the event.

LE: And was not represented at Bretton Woods?

JP: No, it didn't exist yet. There may have been an ILO representative at the Bretton Woods conference (United Nations Monetary and Financial Conference), but I don't remember.

LE: That's a point that most people tend to forget, that Bretton Woods preceded San Francisco. When did these two organizations, the World Bank and the IMF, become operational?

JP: They became officially established when there were enough ratifications, and that happened in late December 1945. By that time, a certain quorum of ratifications were required. They became operational in the narrow sense of the word in that they had their first organizational meetings in the middle of 1946. Both organizations started to hire a building and some staff, and began to assemble work. The Fund as a lending organization started only in 1947.

LE: Was this done conjointly?

JP: At least they were in the same building, and I think all the administrative work for both of them was done by people in the United States Treasury who could hire a building in Washington.

LE: The first World Bank president was Eugene Mayer of the *Washington Post*?

JP: Yes.

LE: Who was the first one for the Fund?

JP: Camille Gutt. A Belgian finance minister, with quite some reputation, who had done a good job of devaluing the Belgian franc in 1935.

LE: And who was number two?

JP: Ivar Rooth, a Swede, who had been the governor of the Bank of Sweden.

LE: And they stayed just a few years each?

JP: They each stayed five years. And so it was not until the middle of 1956 that Per Jacobsson showed up.

LE: What has this man done, which the two others did not do, to get the Per Jacobsson lectures organized, such as you did?

JP: For that purpose, to die in office. But in addition, he was helped a lot by circumstances, especially the Suez crisis, to put the Fund on the map, whereas under the others, the Fund had been sort of a quiet place which had done very little in terms of financial activity. Nobody in Washington knew about it; everybody talked about the World Bank. It was Jacobsson, who was very public relations conscious, but who also had to deal with an important event, which led to large credits to England and France, to put this place on the map.

LE: You started out in the research department?

JP: Yes, I was division chief in the research department. The head of the research department was Mr. Edward Bernstein, who had been the primary assistant of Harry White in the Treasury days in the design of the institution. He was the man who answered all the questions about Bretton Woods, about "how does this and that work?" He was made the head of the research department. He knew me from Bretton Woods and hired me, and told me that I should be at the level of division chief, but that there was only one post open, because during the

preceding six months he had filled all the other division chief posts. So I started as the chief of the statistics division, but I negotiated for statistics to include econometrics.

LE: You were already thirty-three years old when you started, so you had the full right to be division chief.

JP: That was more important then than now, because there were no in-between layers, whereas now there are deputy directors and assistant directors.

LE: Let's count again. Edward Bernstein was the first director of research?

JP: And I was the second. I became director in 1958.

LE: When [Robert] Mundell—Mundell was my teacher in Bologna you see, and he wrote all these seminal articles.

JP: I spent a whole Saturday afternoon in Bologna trying to hire him, and I succeeded.

LE: But who was the other fellow that he, well you, co-authored with?

JP: You're thinking [Marcus] Fleming. They didn't co-author that much, but they are famous jointly for a proposition, for which both of them wrote certain articles, mostly separately.

LE: So Fleming also worked in the research department?

JP: Yes, Fleming became deputy director in the research department.

LE: So you realize that you narrowly escaped the Nobel Prize this year?

JP: In the attribution of the Nobel Prize (I read that whole story), there is a reference to the Mundell-Flemming proposition. There is an explanation that Mundell did by far the most important work on it.

LE: So in 1958 you became the head of research, and you were forty-four years old. Back to the early days, one of the people we interviewed for this project is Hans Singer. He was born in 1910, but is still, like you, going strong. He was a UN man of the first hour, and he

claims that there were early missions in the late 1940s and early 1950s that were joint missions by the UN and World Bank and/or IMF. Do you have any recollection about this?

JP: World Bank is possible. The IMF, I doubt very much. It is conceivable, but I don't really think so.

LE: Were there any sustained contacts between the UN and IMF and the World Bank?

JP: The Fund and the UN had to reach an agreement, that is, the Fund as a specialized agency, well, called a specialized agency, but born before the UN, and there is a long agreement between the Fund and the UN, which was concluded in 1947. I negotiated the statistical part of that, which was sort of a distribution of work—who does national income work, who does balance of payment work. I remember quite a few trips to New York about that in 1947 I think, in my early days in the Fund.

LE: And how did that work?

JP: That particular thing turned out not to be too difficult. We made some reasonable agreement on who would do what. There was a certain amount of overlap, but it wasn't particularly difficult. The Statistical Commission also tried to coordinate these things, and I attended meetings at the UN.

LE: But the tone with which you say this does not show extreme enthusiasm.

JP: No, there never was. Even as early as that time, and before that time, I knew from personal experience that the quality of the UN as a research organization was many notches below that of the Fund. I applied for a job at the UN at the same time as I applied for a job at the World Bank and the Fund. It was when my division at UNRRA was being rounded up, in the last few months in 1946, and I needed another job, and I thought of all three as possibilities of employment. The only place that economists were really appreciated was the Fund. The Bank

had a very limited staff of economists and didn't quite know what to do with them. The UN was already a bureaucracy. I was interviewed by some French senior civil servant who was not interested in economics, but only in building a bureaucracy. Although, there were very good economists in the UN.

LE: [Michal] Kalecki, and James Meade came back to the UN for a while.

JP: Yes. But as an organization, it was a place where reports were written and rewritten at the request of committees, not at the initiative of staff. But the Fund as an organization—now, this relates not the economics, but to the Fund more broadly—wanted to make sure it had its independence and not to have to listen to the decisions of the Security Council as to what it could and could not do, to whom to lend and not to lend.

LE: So the UN has missed a big opportunity. If they would have hired you, history would have been different.

JP: I don't think that's true. They hired a lot of good people, but in the end it did not amount to much.

LE: Well, Hans Singer has been able to do interesting work, hasn't he? He did his terms of trade thing in 1950, as a UN publication. He worked with [David] Owen, another Englishman, who was in charge, and he hired some very interesting young economists, including Hans Singer, of course. From where you sat, from the beginning, there was a big difference between what you could do in the IMF and what you could do at the UN.

JP: Yes. The man who headed the section that wrote the early *World Economic Report*, I forgot his name, a prominent American economist. It all didn't make any influence. Above everything else, the Fund had money.

LE: Talking about money and influence, why is it that all the organizations, including the IMF, have always had trouble with the United States? If you talk to a man like Camdessus, he would say, "We are being received like emperors everywhere else, except in this country." It's a bit exaggerated, but what is your view on this? Even with respect to the Bretton Woods institutions, equating them with development assistance, which is not at all the case.

JP: But that I think does not apply to the American government. The American government knew what the IMF was for and relied on it in certain circumstances to further its own interests. That meant for example, that the American government, and the G-7 (Group of 7) in general, pushed the IMF too far in respect to Russia, but that was in the interest of the larger shareholders who were pushing that. That's not all that unreasonable. What the Americans have found very difficult to realize was that, for the Fund to be of the greatest value to the United States, it needs a considerable independent continuity, and that means a certain objectivity. That means that in some circumstances, it will not agree with the United States, and the United States has to accept that as part of the bargain of having a powerful institution. I find it very interesting that the United States now has been arguing with the Europeans that they want a powerful man to head the IMF. In a very narrow sense, they could have been better off with a weak person whom they could push around.

LE: That's true, although Larry Summers has played an important role there, who had a certain view with respect to Mr. [Caio] Koch-Weser.

IP: That's true, but if Mr. Koch-Weser would have got the job, it would have been very easy for Larry Summers to tell him what to do. And with the next guy, if he's better, it will be more difficult.

LE: To round off this chapter with respect to the relationship to the United Nations, in your career at the IMF, have you ever had close relationships with people at the UN, whether with the UN proper or the other specialized agencies?

JP: Over the years, I developed a very nice relationship with Raúl Prebisch, but I think it was entirely personal. He was an extremely nice guy. I learned a lot of Spanish from him. I remember going to a meeting in Cuba in 1951, where he gave probably the first address in Spanish I ever listened to, and I could almost understand it. Then personal, the man in charge of national income statistics in the UN for a long time was the Dutchman, Derksen. I knew him for a long time. He was also friends with Tinbergen. We had a close personal relationship, but it really didn't mean anything professionally. Professional linkage to the UN was extremely thin. If there were relations from time to time, they were almost always based on personal relations. Sidney Dell, I liked very much too, but it was all personal.

LE: You know that Sidney Dell is really the father of this project; he wanted to start a project like this in the 1980s. He wrote a proposal, but he never got the finance for it, and he died before he could finish it. You mentioned Prebisch, and of course Singer. They both wrote almost simultaneously this famous thesis about the deteriorating terms of trade. Did you ever discuss this with Prebisch?

JP: I don't think so.

LE: And you didn't discuss what he did in ECLA, now ECLAC?

JP: No, of course the Fund was very much against. There were some conferences, but I don't recall any instances where the Fund and ECLA (Economic Commission for Latin America) people had debates on these issues. I don't recall getting personally involved in that.

LE: It's funny, because he was a nice guy, an outgoing man.

JP: In our view, he was completely wrong, and in fact, a very bad influence on these countries.

LE: Already in those days?

JP: Yes.

LE: Because Latin America did quite well in the 1960s, of course, and the early 1970s. Brazil grew 10 percent a year, although later they did worse; they didn't switch their strategies quickly enough.

JP: Well, what they said about inflation, we thought was completely wrong.

LE: Has there ever been an idea that came out of the family of UN organizations, where the IMF or you personally said, "That's not a bad idea"?

JP: There are two cases of that that are very interesting for that question, that are different in nature. One is the IMF's Compensatory Financing Facility that was created in 1963, very clearly under the pressure of the United Nations. The purpose was to make easy IMF loans available to countries that were hit by unexpected declines in export proceeds. That idea was very active in the UN, and the Fund's reaction fundamentally to it was, "That's fine. That's a perfectly good reason for countries to borrow from the Fund, if they have a temporary decline in export proceeds, but you don't have to do anything special for them, because that falls very nicely under the Fund's provisions. If these countries have good policies, they can be very badly hit by a decline in export proceeds, and if these policies are very good, we will not ask for any change in policies; we won't impose conditionality, we'll lend the money." In the opinion of the UN, that was not good enough. They wanted something more positive, and they also wanted something in addition to money, because after all, the Fund's lending at that time was still very

much limited to 100 percent of the quota. This idea gathered strength in the UN, and the UN had various committees discussing that.

LE: There was the SUNFED (Special UN Fund for Economic Development) discussion.

JP: No, SUNFED was very different.

LE: But SUNFED never made it into the UN.

JP: SUNFED in fact made it into IDA (International Development Association) in a very indirect way. SUNFED was bought off with IDA, which was really quite different.

Compensatory financing became attractive to the Fund, because the Fund was aware that its membership wanted it very badly, and perhaps might even have started in the UN if it wasn't in the Fund. So the Fund did take a decision—and I was at some UN conferences that discussed this matter, it was quite a fund delegation, including one of our senior legal persons—and the Fund in the end agreed to establish a facility, which gave additional drawing facilities and which specified that there would be virtually no conditionality if the shortfall in the exports was, to a large extent, due to factors external to the country. This is somewhat an idea that essentially arose in the UN and was taken over by the Fund and implemented by the Fund.

LE: That was '63, the compensatory facility? It was the early sixties.

JP: Yes, it was '63.

LE: That was one example.

JP: The other example is also very interesting and also very different. Probably very little known about its origin. The idea grew in the FAO that countries should also have special access to credit of some form or another if they had to pay much more for their food imports, either because they had a bad crop themselves or food prices shot up. That idea played around in the FAO for quite a long time and there were informal checks with the Fund staff what they thought

about it. And my reaction—I was the head of research at that time, and these were the kind of things that research handled—was that if you can fit it into the logic of the existing compensatory facility, expand that to cover also unexpected additional costs for the import of food stuffs, it's conceivable that we could make a go of it. The FAO and afterwards, I think, the people in the World Food Council then worked very hard on this idea. They became fully acquainted with the Fund mechanism, so that they produced something that could be fitted, so to say, into this existing facility. After they had done all this work—there was a lot of guidance from us, but all at a very informal level—I was convinced that it might fly. I persuaded the managing director, that was [Jacques] de Larosière at that time, that this was a sensible idea and we should put it to the board. We put it to the board, and there was very little enthusiasm for it, even among developing countries. But, he had become so convinced that he kept pushing it and in the end it was adopted.

LE: This was when?

JP: This must have been 1978 approximately. It was after he came on the scene and before I left the scene. About 1978. And it was adopted. So here are two interesting instances. Many of the other initiatives in the UN never got anywhere.

LE: During the heat of the adjustment policies in the 1980s, there was this publication of UNICEF (UN Children's Fund), *Adjustment with a Human Face* in 1987.

JP: That had some influence. That worked in a completely different way, in a much less technical way. Certainly, the new managing director, Camdessus, was very much influenced by this. The Fund got pushed in that direction, initially, I think, by this UNICEF report and similar reports. And the managing director pulled this little card out of his pocket when he addressed the annual meeting this year, and read out those seven pledges on development.

LE: This was in Bangkok where he did that?

JP: No.

LE: It was before Bangkok?

JP: This annual meeting, in Washington in 1999.

LE: The seven pledges on sustainable development are: reducing extreme poverty, enrolling all children in primary school, increasing gender equality, reducing infant and child mortality and maternal mortality, improving reproductive health, and protecting the environment. Mahbub ul Haq could have said this in the *Human Development Report*, right?

JP: Right. But this was the managing director who, during his speech, pulled this out of his pocket, and he had oodles of copies of this thing printed in this building, as to what we stand for, against poverty and for all these things.

LE: I've known Michel Camdessus quite well. He very often talked about the social consequences of his work. I had the impression he was really struggling with how he could incorporate social policies better in the IMF. It never went very far, did it?

JP: Well, it's come quite some distance by now. For example, social safety nets is now a normal part of Fund standby arrangements. No, he's pushed it very far. Not only he, the membership, especially the Americans and the British, and the pressure from NGOs (nongovernmental organizations), so it's not just the managing director.

LE: In the World Bank, the NGOs have got a growing influence. Too much, one could say?

JP: Yes. It's not come that far in the Fund. The influence of the NGOs on the Fund is really more indirect through the U.S. Congress, and through the British government too, I think.

On those two governments, they have an important influence and they guide, to a certain extent, the positions taken by the executive directors, how they push the organization.

LE: Would you say this is a healthy development, that civil society as it is called and the NGOs are getting a certain influence, next to the government representatives sitting on the board on the 13th floor, so that the rest of the decision takers are also being heard? Do you think it's a good thing for an organization like the IMF? I think that for the UN, it's a very good thing. For the World Bank, I think it's a good thing, but this is a central bank.

JP: The question is also with the WTO (World Trade Organization). If civil society operates through government, as for now it does mostly in the IMF, it's a good thing if these governments make sensible decisions as to what of the pressure from the NGOs they can suitably ventilate in the IMF or in the environmental organization, the UN or whatever. I think the governments, to the extent that they listen to the NGOs, find it too easy to push on the whole program and ask each organization to take care of all these things. By that mechanism it defeats the purpose of the construction of specialized agencies which is an important difference between the postwar structure and the prewar structure. In the League of Nations, there was one specialized agency—the ILO. All the rest, such as matters of health, the environment, agriculture and so on, all belonged in the League. They did something about it but perhaps, not all that much. The postwar world has been very deliberately constructed on the basis of specialized agencies who perform specialized functions, all for the benefit of mankind. What the Fund does is at least as important for the poor people as what other organizations do that hand out direct subsidies to these people. But they do it in a different way and they are responsible for different instruments. The NGO pressure tends to nullify that distinction.

LE: I think this is interesting insight here. Before we move to the relationship between the IMF and the World Bank and the different facilities that have been set up in the IMF, how is a report like the *Human Development Report*, which has existed since 1990, being considered in the IMF?

JP: It's not put on the agenda of the Executive Board. I doubt many people in this building have even looked at it. I don't think it's generally distributed even.

LE: It's widely distributed, but maybe not here.

JP: It's not distributed desk to desk in this building. I don't even know if it's distributed to the Executive Board.

LE: Have you been able to look at it from time to time?

JP: Yes, but I don't know how I got it. I didn't get it routinely.

LE: The relationship between the IMF and the World Bank. You have written a—

JP: I have written a chapter on that, yes.

LE: You have written, I think, an annex in this two thousand page World Bank history.

JP: It's in the second volume. It was published separately before that.

LE: By the Brookings Institute. Of course, we have that. It's also a fascinating story, how the World Bank and the IMF started out with a clear division of labor and as time passed, you grew closer together in a sense.

JP: And across.

LE: And across. But can you summarize a bit for us how that happened? Why did the IMF start lending money also, in the longer run, and more and more for development purposes and therefore getting in the field of the World Bank. How the World Bank got interested in macroeconomics, when it was normally doing projects. It's an interesting development.

JP: Yes. Here are two ambitious organizations, I think that is a starting point, who feel that the countries they are dealing with have very serious problems, because not all their needs are taken care of adequately, or at least fully, by other organizations. In the case of the World Bank, the history is rather clear and explicit, how they moved into structural adjustment lending. Their other lending was drying up. Countries couldn't put up the counterpart funds that were necessary. It was also being realized that projects could easily falter if macroeconomic policies were not adequate. Countries had large balance of payments deficits and were forced into adjustment policies which in the opinion of the Bank, perhaps, were unduly harsh and so this opportunity opened up itself. It was not liked by the board in the beginning at all. It was proposed by [Robert] McNamara to be done on a small scale and an experimental basis and then it took on and on. If you read [James] Wolfensohn today in the *Washington Post*—did you see it?

LE: I saw that piece, yes.

JP: He argues that the World Bank must lend money to Mexico to straighten out its financial structure. Why? I can understand that Mexico's financial structure needs to be improved. I can perhaps understand that the World Bank ought to help them in doing it, although that is not all that obvious. Why does that take money? The World Bank was always moving in this direction of getting out more money. Its success was practically defined by how much money they could lend. That didn't use to be the philosophy at the Fund. The Fund realized that it would lend large sums of money in certain circumstances and then in the next few years get it back and, if there was a new crisis, they would lend again. I think the first steps of the Fund in the direction of structural adjustment lending, the Extended Fund Facility (EFF) which dates from 1973, was a consolation prize given to the developing countries because they didn't get the link—the link between SDRs (special drawing rights), creation and development

expenditure—and there was a very affective executive director of the French-Africans, [Antoine] Yameogo, who was able to push this and was able to get this consolation prize out of his colleagues. It wasn't, by any means, obvious that he would succeed in it, but he did, and, of course, the staff was in favor of it, because the staff was also interested in doing more and bigger things. That is one thing. Another reason were the profits made by the Fund units gold holdings. In the middle seventies, not much had come of the reform of the international monetary system. The gold price shot up, and almost all the profits on that gold went to the industrial countries who had very large stocks of gold. The developing countries, first, couldn't afford to hold gold, and second, had been told by the Americans and others that if you want foreign aid you must not hold gold. So they got almost none of the profits. The logic of the proposal in the Fund was that the gold profits made by the Fund ought to be used to channel some money to developing countries. This was an extremely difficult thing, for which [H. Johannes] Witteveen and I tried one design after another and most of them failed, but in the end we got something out of it, namely, that a small part of the Fund's gold was sold with the profits used for easy loans to developing countries. Those were ten-year loans. They began coming back, starting after five years.

LE: That's how you got in the way of the World Bank? Long-term loans.

JP: The money began coming back during the period of the debt crisis in the middle eighties. So, here was opportunity to shove it out once more. But there wasn't really very much in this gold circulated twice, so Camdessus suggested we ought to get more money, by expanding SAF to ESAF, the Enlarged Structural Adjustment Facility. We started, in a sense, competing with IDA for cheap money and lending it out. Each of the two institutions thinking that it was doing extremely useful things for its members. Each of them also was feeling that the

other didn't really do enough, didn't do it quite well, or didn't do it quickly enough. So, if one had an opportunity, one should use it. Finally, one element in this was that the Americans, quite unwilling to spend their own money so to say, began to look at the money from the Fund and the Bank as indistinguishable money that happened to be around and could be thrown at any problem that needed money. This concept of Fund-and-Bank as Siamese twins occurred first during the debt crisis. Later, in the Korean crisis too, money was mobilized from the Fund and from the Bank. I'm speaking of the '90s, the Korean crisis of the '90s. The Fund lent, I don't know how many billions to Korea, but it wasn't enough. The big package that we made up put pressure on the Bank for them to put money into Korea too. These were very unnatural bank loans.

LE: So for the IMF, it was basically the will to do good?

JP: For the Bank too, I'm sure it was the will to do good.

LE: Witteveen started it you said?

JP: No, it started even earlier. The link was heavily discussed as part of the reform exercise in the early 1970s.

LE: The SDR was started in 1968?

JP: The first allocation was in January 1, 1970, after the amendment adopted in 1969. And that idea of the link remained and was put forward again in the reform of the international monetary system in 1972, where it failed again. But, as I mentioned, the Extended Fund Facility was then proposed as a consolation prize in 1973/74. It was argued in support of it that the Bank lends long-term and the Fund short-term, up to five years. There is a gap there, from five to ten years, we might as well fill it. It was always the best of intentions in trying to do good.

LE: What happened in the Argentine case? The whole thing came to a head in 1989 with the disagreement over an Argentinean loan between the IMF and the World Bank, and that gave rise to kind of concordat, but that was not about long-term loans, it was more a disagreement on the actual state of play in Argentina.

JP: No, there is more to it than that, because it was—what the Bank was negotiating with Argentina was a sectoral loan, but essentially a structural adjustment kind of loan under which the Bank agreed.

LE: CEPAL (Comisión Económica para América Latina).

JP: Yes, CEPAL. That the Argentine macroeconomic policies were good enough and that the policies would be policed by the Bank to see whether Argentina deserved the subsequent installments of that loan. That cut very fundamentally into the Fund's business. The Fund felt it was to make the initial judgement whether these policies were good enough and, at the time, the Fund believed they were not. And the Bank would be the judge over the years whether these policies remained good enough, and whether the country made the correct adjustments as defined by the Bank. In a sense this potentially put the Fund out of business. That was the risk, so it was a very fundamental issue, and that is why the proponents of the Fund rather than the Bank in the member governments, especially in the G-10 (Group of 10) governments, wanted this concordat to make sure that the Bank would never do it again.

LE: Was that successful?

JP: They finally got a concordat, which is so vague that nobody knows what it means on the most important issues. What was successful, I think, is that the Bank realized that they got themselves into a horrible box by having done this. They got so much egg on their face that at

least for quite a long time—and I think it's still holding—they were not going to do it again, so they retreated. They would have done it without the concordat too.

LE: Those were the days when Mr. [Stanley] Fischer, who is now the acting managing director, was the chief economist across the road. Wasn't it?

JP: Yes. Fischer was against the Argentine thing. Fischer and [Nicholas] Stern were both against it. The thing was strong American pressure on the president of the Bank, plus a great willingness of the Latin American Area Department, to go ahead. But the more general people, Fischer and Stern, were against it. But Fischer was furious with the Fund on the concordat issue, that the Fund wanted to insist that the Bank had no business making macroeconomic projections. Fischer, who had written a textbook on macroeconomics, thought it was ridiculous that the Bank would be lending on somebody else's say-so on the macroeconomics of a country.

LE: On this, IMF-World Bank issue, there's now, today, March 2000, a growing discussion in the light of a report of Congress, called the Meltzer Committee on international financial institutions, and one of the proposals—I haven't read the report yet, only press accounts of it—but one is apparently a merger between the IMF and—

JP: No, the merger is not being discussed. Their proposal is to turn back the clock considerably and have each have its separate sphere of action, and get away from this overlap. They want to cut both of them back very sharply, so that they don't get in each other's way. They want the regional banks to take over for Asia and Latin America.

LE: And the World Bank to take over African development.

JP: Well, they want to have the whole African business put in the World Bank, and no longer in the Fund. They want the Fund to wash its hands of handling these poor countries on a permanent basis, so to say. And keep the Fund to crisis management.

LE: It is a bad idea, because the development banks are in the business of helping out countries who don't have easy access to the capital markets. As more and more countries get access to the capital markets, why would they need development banks, whether it be regional—

JP: Of course, this was the principle of the World Bank ten years ago—
“graduation”—but they don't stick to it anymore.

LE: No, they don't stick to it anymore. They want to survive.

JP: I don't think this report (*Report of the International Financial Advisory Commission*) will go too far in that direction, but the idea of graduation is extremely sensible. The argument is that because there are many poor people in Brazil the capital market won't provide money to build schools for them. I just don't buy that argument.

LE: Now, I want to go over a certain number of instruments that the IMF has introduced over the years. We have already talked about a compensatory scheme in 1963, the SDRs in 1969 or there about, the Extended Fund Facility in 1974, the Trust Fund in 1976, the Structural Adjustment Facility in 1986, the Enhanced Structural Adjustment Facility (ESAF) in 1987, and maybe there are others that were there before, during or after. During most of that time, you were the chief economist of the Fund. What has been your personal role in designing these series of instruments?

JP: Well, in the early years, roughly speaking, as long as I was the head of research, the design of most of these things fell into the research department and under my guidance. The compensatory finance facility started as a research department research subject, and it was also operated by the research department, unlike all the other facilities, which were done by the area department. This is so no longer. The Trust Fund, which came out of the gold sales business, also

was a product of the research department. The SDR was completely a research department development.

LE: And then the EFF, and the SAF?

JP: The EFF was less so. I played some role in it, but so did other economic departments in the Fund. The SAF, we're now speaking of '86, and by that time, I was no longer in the research department, and I don't think the research department had much responsibility, if any for it. For ESAF, it certainly didn't.

LE: No. Tell me, you retired for the first time when?

JP: In 1979. In 1979-1980. I stayed on for a few months as a special assistant to the managing director.

LE: And then you came back as the executive director.

JP: Yes, in the board at the beginning of 1981.

LE: This is off the record; how did you manage it?

JP: I took the executive director's job only when it was offered to me a second time. It was proposed to me a first time in 1976 by Wim Duisenberg, the minister of finance of the Netherlands, in order to take over from the long-serving Dutch member of the board, Pieter Liefstinck.

LE: He only left in 1976?

JP: Yes.

LE: He had been here, for what, thirty years?

JP: No, no, he had been here for about twenty years, 1956-1976, more or less. And Duisenberg offered me the job at the time. I was really more interested in being the head of research than being one of the twenty members of the board. And I said, "No, if you come back

four years from now, I may do it.” And to my tremendous surprise, he did come back four years later.

LE: Just before he left himself.

JP: Yes. So, he took [H. Otto] Ruding in the meantime. But Ruding left after four years. By that time, I had had my first retirement and I said “Yes,” considering the alternative.

LE: So we had Lieftinck, we had Ruding, and then you. And now it is—

JP: Oh, and then it was [Godert] Posthumus. And now Onno Wijnholds.

LE: And you retired for the second time in 1986? And worked as a consultant to a famous man, Louis Emmerij in the—

JP: Yes. And I took on the Jacobsson Foundation, which wasn’t all that much work, but it gave me an office in this building.

LE: Coming back to your role in these instruments, I think this is an exceptional situation, the importance of research in the IMF. In most organizations, or most national ministries, if there is any research, it is a world apart from action most of the time.

JP: Yes.

LE: Look at the World Bank, there is this huge research effort going on there—thousands of papers. But the impact of that research on the day-do-day operations is sometimes difficult to identify. The IMF is much more focused. How do you explain that? Did you take certain initiatives if a crisis arose, or what?

JP: No. I think this is natural for the IMF, which was concerned with an intellectually very challenging subject, in contrast to the World Bank. When the World Bank was started, the fundamental argument was: “these countries need capital. The private market doesn’t provide it. So we need an organization that channels capital to these countries.” That wasn’t the assignment

of the IMF. The assignment of the IMF was to be responsible for the good functioning of the international monetary system. Whereas all the pieces of that are old, the whole raises big economic questions: fixed versus fluctuating rates, the role of gold, creation of adequate liquidity. These are all prime intellectual subjects. And so it was natural that the guidance of the institution and the ideas for the institution come out of the research department. My predecessor, [Edward] Bernstein, who started the whole business, started it on that basis. He had under him a research department, which at the same time incorporated all the area work, divided over area divisions, and some specialized work like exchange restrictions. And all those things were spun off later, statistics also. He was the man who would advise the managing director on what to do on gold, which was a big issue in the early years. For example, the gold price and should members be allowed to control that. So, from the very beginning, all the intellectually interesting issues, which were operational issues for the Fund, like the acceptance of the initial par values (that happened even before I joined the Fund; it happened in the summer of 1946). These were all issues for the research department, and as long as the research department, or the head of the research department, was interested in keeping these things in his department, there was some useful work done on them. They would stay there. My successor was not interested and let all of these things slip, and they never came fully back.

LE: And who is now the head of research?

JP: Michael Mussa. He's been there for some time.

LE: I find this a fascinating aspect of the IMF. For example, the role you have played, also in the SDRs. The special drawing rights, they have not gone very far, have they?

JP: No, they have not been a success. For various reasons, I don't want to go into that, because that turns into gray economics. But the intellectual structure of the Fund was something

that was very clear from the beginning. Bretton Woods was a place where economists gathered. Keynes was an economist; White was. All the people around it were. The head of the Dutch delegation, [Johan] Beyen, was an economist.

LE: Beyen?

JP: Well, Beyen was a lawyer by profession, but was an economist by interest.

LE: He was heading the Dutch delegation? He became the minister of foreign affairs later. You know, of course, have a very good, much more relaxed view of the organization, but you still have a privileged look-out function. The question of the quota increases in the 1990s for which Michel Camdessus has pleaded, also in the face of the crisis that was going on, that hasn't gotten very far either, has it?

JP: Well, he got two decisions for quota increases; the second went into effect last year. He perhaps over-asked, but he asked for a very large increase; he twice got about a 50 percent increase, which wasn't so bad.

LE: Tell me, to round off this one, the Bank of International Settlements (BIS)—what, if any, has been the relationship between the BIS and the IMF over the years?

JP: Always extremely friendly. But they were doing quite a different job, so to say. It's only in the last few years that they are actively occupying themselves with standards for banking systems. That is a field of great interest, and potential overlap, with the Fund. The functions that they perform in that connection are very important to the Fund.

LE: In the statistical area, the Fund a few years ago published data on China and India, not expressed in per capita income but in PPP, purchasing power equivalents.

JP: That was a Bank initiative.

LE: Was that the Bank?

JP: Yes. I don't think the Fund did that. The Fund didn't do that.

LE: But you are also publishing income data in PPP?

JP: I doubt it. I don't think the Fund's regular financial statistical publication contains anything—I don't think so.

LE: But do you have an opinion about it? Because it is still a kind of running discussion when either the World Bank or the IMF published this data on China and India, which showed that in PPP dollars, they were twice, three times, four times better off than in per capita. It created an uproar, not around the world, but in China and India.

JP: Who would like to be poorer, or rather, considered poorer. But that's not an issue in the Fund, except to the extent that for quota purposes, these countries, or some of them at least, would like PPP figures to be used, because our quota formula includes national income, or GNP, and if you apply PPP to those, which the Fund has never done, you would get higher quotas for these countries.

LE: Yes, but they have to pay in more too.

JP: Paying for quotas costs nothing in the Fund.

LE: It's a paper thing.

JP: The way the Fund operates, in-payments are not costly.

LE: Right. But, forget about the World Bank and the IMF. In general, as an economist, what is the better measure, or would you say it depends on the topic?

JP: That depends on the issue, yes. Obviously, PPP is more sensible if you compare welfare. People in India who make a dollar a day are not as poor as if you would make a dollar day here. And so, if you want to know how poor they are, you better make some adjustment for

difference in prices. For other purposes, for example for the Fund's quota formulas, it is by no means obvious that it makes sense to move to these numbers.

LE: Very good. Now, what I propose is that I'm going to finish my questions before the luncheon break, and then during luncheon break we are going to review whether we should have any additional questions.

JP: As you like. We don't have to have lunch before one o'clock.

LE: No, so it would be nice if we could finish the whole thing, but if we discover during lunch that we forgot something, we will wire up again.

LE: I want to finish off with the third and fourth chapters as one really, more looking back. So, you are now a young man, you'll be eighty-six in April, I won't give the date away. If you look back as a man of substance, you have always done and/or supervised research, you've never been really part of the talk-shop. What has been the role of ideas, policy ideas, first in the IMF (we have already to an extent discussed that), but also in general. What would you say an international organization can do in terms of launching policy ideas, and have you specific examples of that outside the IMF? In the IMF, I think we have been discussing them, but this is more a general question. What do you see as the role of ideas, the role of international organizations in designing ideas, in the face of problems that are out there, and in launching them? Do you see a specific role for international organizations as a machine to launch ideas, also in the light, of course, of Bretton Woods and the Great Depression, and the lack of success of the ideas that the League of Nations tried to launch? It's probably a question that is too wide for you.

JP: It is in a sense. It is very obvious in the context of the IMF, because the IMF started about ideas, and as circumstances in the world changed, new ideas were needed. It was really the

duty of that organization to be alert to these issues. And because it had a good staff from the start, it was able to come up with new ideas and sell them to a certain extent to the membership. This is not obvious, I think, perhaps in other organizations. There, new ideas come from important member countries, who bring them in and then gather support from them and sell them. The interesting part in the Fund is that a lot of these ideas arose in the institution, or at least the staff of the institution was capable to pick them up from the air where they floated in a very general way and make a run with them.

LE: Yes, but that is an important distinction. The IMF launched ideas basically from within, with the possible exception of getting Bob Mundell out from Bologna in 1962?

JP: The possible exception here is the Compensatory Financing Facility. That's one which the Fund was lukewarm about, and by the way, after thirty years, the Fund is again lukewarm about it. It has virtually eliminated that facility. But take the SDR; that was an idea, which didn't originate just in the Fund. Robert Triffin is very often credited with having started that idea, and lots of other people as well. You can push it back to Keynes, and to many others. But in the 1960s, there was a time when this idea looked ripe for development. Some governments pushed it. The British, who always wanted new ideas and always wanted more liquidity for themselves tried to get it going. But the Fund staff played an important role in it because there was also good Fund staff available. And that goes back to the recruitment policy by Bernstein, and other aspects of the Fund as a well-known place where interesting jobs could be had. One example of that was a young economist, who told me he had a chance of being considered for a job in the Fund or in the Bank, and he had decided on the Fund. And I said, "Why?" And he said, "Because the Fund publishes *Staff Papers*. That's why I joined the Fund's staff." That was Duisenberg. My recruiting of Bob Mundell fits in the same pattern. And Fleming for that matter.

Bernstein got Fleming, I don't think I did. We made major efforts to get the very best people. We had a good system of promotion, not based on nationality. And we allowed people to write. We had our own journal, in which they could publish if they wanted to, but also they could publish outside. And it took a staff large enough to produce ideas and to be able to sell those ideas to the Executive Board.

LE: I am happy that the IMF now finally has its Nobel Prize laureate (Robert Mundell), because the UN of course had many more Nobel Prize winners working for it than either the World Bank or the IMF.

Now, still in this kind of retrospective mood, you mentioned that at Bretton Woods, the IMF and the World Bank were set up in the face of a new era. One could say that big decisions can only be taken after a crisis. And that may be the reason why we see today few initiatives, although, with this growing globalization we now see, financial globalization, also the goods market, wouldn't you say that it may be time again to—that we are entering a kind of a new era, the new technologies, the talk about new economy. Isn't it time again for maybe one or two big ideas, and has the Meltzer Commission not come at an interesting time to launch new initiatives?

JP: No, the Meltzer Commission doesn't—even if the report was perfect, it doesn't qualify on that level. It sorts things out rather than producing new ideas. We should also bear in mind that by now we have the machinery to get to new ideas incrementally, which we did not have before. Nothing would be more stupid than to convene everybody in the world at Bretton Woods and ask them to come up with a new system. If there are ideas about what to do with the Fund's gold, for example. Couldn't that be used for a better purpose? Should the Fund sell it or not? The internal mechanisms of the Fund, including of course, and in particular, the responsible organs on which the member governments are represented, can take these incremental decisions.

Take the movement from fixed rates to floating rates—to take a very big issue—that began to happen in the early 1970s, and mostly happened without anybody wanting it.

LE: True. Except for Mundell, who was fighting for that ten years earlier.

JP: Well, he's for fixed rates now.

LE: Of course.

JP: But since that time, it's really been an incremental issue. Should developing countries try fixed rates? Should they try floating rates? And various things in between. Dollarization, and all these kinds of things. Those things can be decided step by step, but produce a very big difference after twenty-five years. After all, the floating rates were introduced by the big countries. Only half a dozen countries had floating rates then. The world wasn't on the floating rate system. By now, almost all countries are, or they are on absolutely fixed rates, which was something that really didn't exist then either.

LE: What you say is then, that contrary to what you have observed during the interwar period, there is now much more room for incremental change, and that indeed these incremental changes are taking place contrary to what happened in the prewar period. You who started out with a doctoral dissertation on the role of the state, at the national level, public works, and as an old Keynesian, you can look at this globalization. One hundred years ago, at the national level, the private sector was as free as it is now at the international level, and it took people like Bismarck, not a radical, to start the idea of a welfare state. Now, we see more and more firms and enterprises moving to the global level, where they don't have the equivalent of the state. Actually, the weak institutions that we have, and I include the Bretton Woods among them, are being criticized very often by powerful stakeholders. Isn't there a role for a serious organization to start thinking about how we can get a little bit more equivalent of the state at the global level?

That's what you were set up to do in the first place, right? You were supposed to grow towards a kind of central bank at the global level.

JP: Don't make the discussion too general. The Fund is not in charge of thinking how the whole world ought to be organized to live happily ever after.

LE: Why not?

JP: That's not its function. It's a specialized agency that deals with financial matters. On financial matters, there are still very many questions. For example, should there be controls on foreign exchange? Should there be floating or fixed rates? What should be the role of the SDR? And on those, at any time, the Fund may come to the conclusion that things ought to be changed. For example, *de facto* the Fund has mostly given up on the SDR. It believed, I think for good reason, in the 1960s that this was a very important innovation. It turned out that the markets changed so much in the '70s that the importance of this innovation is now much less obvious, and there is much less reason to create additional SDRs than we thought at the time. But I don't think you ask the Fund to speculate on world government in general. It can speculate on a World Central Bank, in a sense of the particulars of what the Fund should or should not do or be able to do. And you are much better off on that subject in starting out from what we're doing now and say, "Where is this defective?," than starting out from the idea of a World Central Bank and try to apply that to the present situation.

LE: Yes, but I was not addressing my question on the desirability of having a little bit more state at the global level to Dr. Polak twice retired from the IMF; I was addressing the question to the intellectual Polak to address the question: "Would that be a desirable thing? Or would you say, 'No, it went too far at the national level and may go too far also at the world level?'" I, of course, believe that we need more countervailing power, as we have already at the

regional level. There is the European Union. We have a lot of state at the regional level. Some people would say too much (in Brussels, for example). And at the global level, we have nothing. Well, we have these relatively weak institutions, created in San Francisco and in Bretton Woods. It may deserve a new look.

JP: I guess we've changed our respective roles.

LE: Yes, I'm now giving the answers, you're right. Final question, a general question again. If you look back on what you have done over these long years. How many years—more than sixty, sixty-five years of active life—is there anything you would have liked to do that you haven't done?

JP: Oh, I should've taken tennis lessons.

LE: You're playing golf?

JP: That's an old-man's sport.

LE: I agree. So, no regrets? You find that you have done—

JP: There are many regrets, but I'm not sure how easily they could be—I could have learned much more mathematics when I was younger and that might have enabled me to read econometrics today. I am a fellow of the econometric society, but I have stopped reading, in fact, subscribing to the *Econometrica* because I can't read it anymore.

LE: But we agree that it has gone too far? For people like Tinbergen, as I understand you—

JP: It went too far for Tinbergen, that's an interesting part.

LE: But for both of you, mathematics was a means to simplify complicated problems to put it in a simpler way, whereas now, it's almost the reverse. I see that with your modesty you

don't want to answer general questions; you are the man of specifics. It has been a very great honor for me to do this interview.

JP: It's my pleasure.

LE: And as I said, we will send the transcript back to you. Is there any question you think I should have asked and that I have not asked?

JP: No, I don't think so.

LE: Did you prepare for anything?

JP: No, I don't prepare very well, generally. I hope I have been able to convey how special an organization this place is, perhaps was. I hesitate to say that, but I'm of course not as familiar any more with the place as I was before, but the place where certainly ideas could, if they made sense, be put into effect over a very short period of time. If you want to hear the curiosum of this, I'll—

LE: Yes, please.

JP: It's often being said that one of the functions the Fund should perform is that of providing a substitution account, so that countries that do not want to hold dollars anymore could convert them into some kind of claims on the Fund. All the general negotiations on this subject, and I've gone through it three or four times, sometimes very close to reaching agreement, all of those have not ended up with anything of that nature. But there is one example, when a particular instance of that was concluded in twenty-four hours. I was at a meeting of the G-10 in Rome in May 1965 when the Italians felt that they had too many dollars. And the Americans were willing to allow the Italians, so to say, to deposit these dollars with the IMF. And the U.S. getting a correspondingly reduced position in the IMF. They were starting to see how this could be done. There was no facility for it in the Fund. (The G-10 meeting was about a very different thing,

about the SDR.) But I talked to the Italians and the Americans, and we came up with a way of doing this within the confines of the Articles of Agreement of the Fund, and which was not too far away from things we had already done. That took a day. We submitted it overnight to the General Council in Washington, who agreed to it. It was fundamentally concluded then and there. It took six months before the actual transaction took place and because it is the only transaction of its nature, it didn't change the system. It was a modest amount, 250 million dollars. It didn't change the system, but it was recognized at that time as the Fund acting as a substitution account, since excess-holdings of a particular currency could, in this case, be deposited in the Fund. That's the kind of thing that happened.

LE: For my own curiosity, you have known all the managing directors, who was the most inspiring one for this organization?

JP: De Larosière.

LE: Jacques De Larosière?

JP: Yes. Schweitzer was wonderful for inspiring an *esprit de corps* among the staff, for giving the staff its head, and for backing up the staff, which was extremely important of course. De Larosière, the way he met the debt crisis was really something very unusual. The way he badgered around the banks, the debt countries, and everybody else. He got that done.

LE: And the thirteen years of Camdessus?

JP: I think one has to wait before we can judge him. He pushed the Fund very much in the direction we discussed, the social direction. It may well be that he went too far in that, and that some half step back is what is now called for. I don't think that a full step back would be possible.

LE: Dr. Polak, there is one final point I want to ask you about and that is the McCarthy period. Hans Singer has been very specific on that point in his interview when he talked about that period in the UN.

JP: Hans Singer was English, wasn't he?

LE: He's English. He was born German, and turned English. The only person who has been a student of both Schumpeter and Keynes. He had Schumpeter in Bonn, and Keynes later in Cambridge. Hans has been very specific about the damages that were done during the McCarthy period in the UN, and actually also about the weak resistance it received by the Secretaries-General, until Dag Hammarskjöld. What was the situation in the IMF? Did the McCarthy people also take an office here and interrogate everybody? What happened?

JP: No, that did not happen, but they produced a list of Americans that they thought were communists and that ought to be eliminated from the organization. And on top of that list was the secretary of the fund, Frank Coe.

LE: He was the number one target?

JP: Yes. And the managing director took the view that if he came clean with the Congress, they would keep him on. But Coe refused to answer questions. He took the Fifth Amendment. At that point, the managing director sacked him.

LE: Who was the managing director?

JP: That was [Ivar] Rooth. Coe, by the way, very soon after moved to China and lived in China ever since. But there were very many other people who were named, some of them whose passports were taken away, for example. But as far as I remember, all of these were maintained on the staff, if they were willing to answer all questions. It produced a lot of sadness on the part of some people. There was, for example, a rather senior man, who had been U.S. Treasury

representative in London, who was high up in the Western Hemisphere department of the Fund, and who, pending this whole period of debates about suitability and so on, was sort of put on paid leave. Much later, he was reabsorbed in the active staff, and then was put in the research department for no very good reason, but the guy needed a job. It was a very sad case. Others were completely exonerated, but it took them months and months. And the Fund did accede to the request that the governments should prescreen any new employees.

LE: How long did it last? It lasted for the whole entire period, three years, or?

JP: It lasted, yes—and of course, this prescreening lasted for decades, until the Americans gave it up because it was too expensive. I was often interviewed by the FBI to give my opinion on Americans, to answer questions whether so and so was a reliable American. I said, “Why do you ask me?”

LE: There’s another question, which I think is interesting. When the IMF started, it was a compact organization with relatively few member countries. Then came this whole wave of decolonization, and we are now, what, 180 member countries?

JP: 185, I think.

LE: But this being a highly organized organization, I suppose it did not disrupt the work too much?

JP: The African wave—many of these countries took a long time before they first had financial dealings, so it took more staff to send missions to these places, but it didn’t produce much disruption. The Russian wave was much more profound in that it produced a lot more countries that suddenly needed enormous amounts of staff, and a whole new department was created for them and so on.

LE: That's an incredible thing. Eastern Europe, the Soviet Union—you moved from nine countries to twenty-seven; I counted them yesterday. This is an amazing thing. How are these people, the staff members from these countries? How are they doing?

JP: The staff members from these countries, I know a few Russians, but we don't have a lot of staff members from these countries.

LE: OK, this is it. We're going to have a meal, and anything else we will do in writing.
OK?

JP: OK.

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