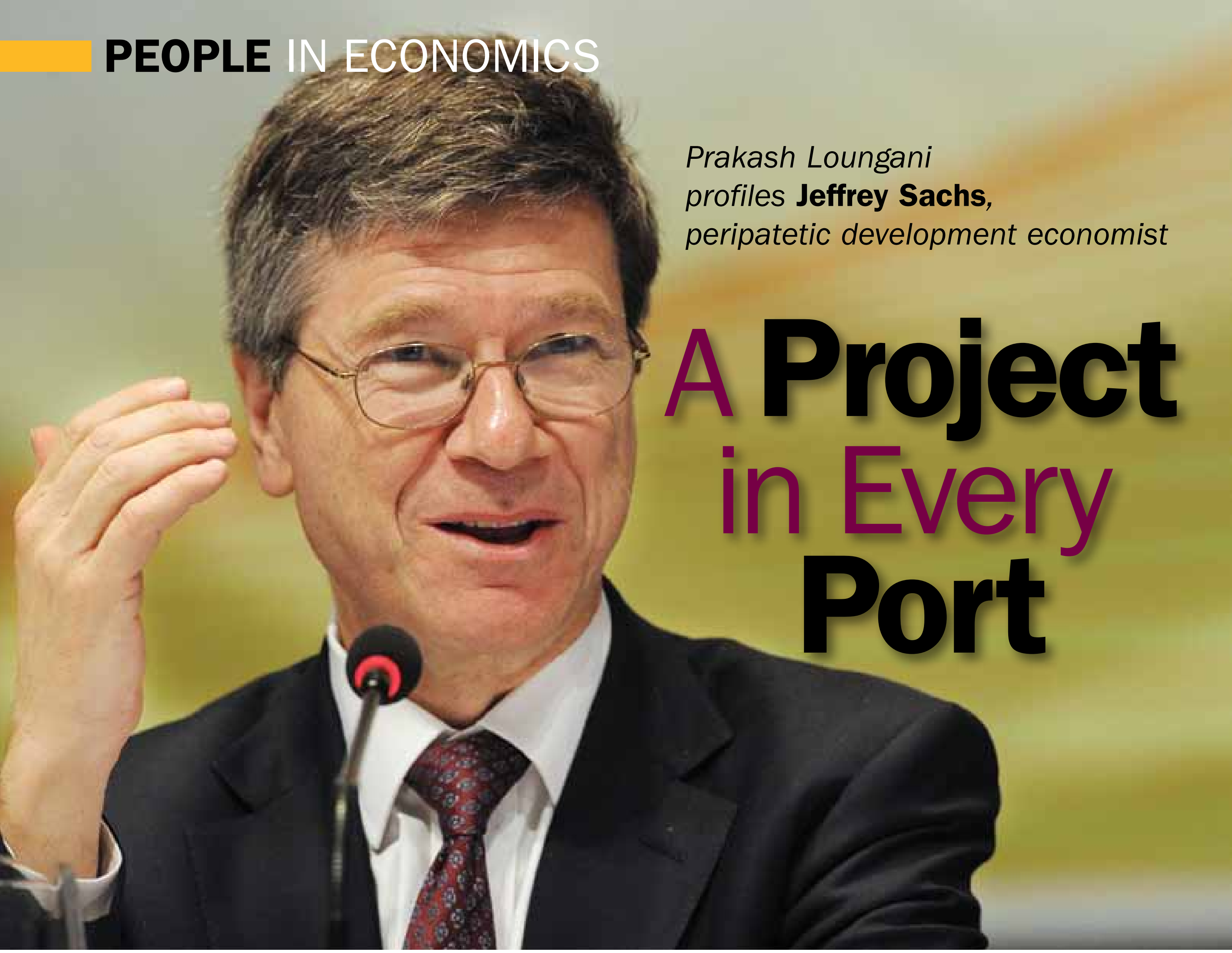

Prakash Loungani profiles **Jeffrey Sachs***, peripatetic development economist*

A Project in Every Port

IT IS HARD to imagine a more accomplished—and more varied—career than that of Jeff Sachs. Harvard University granted him tenure in 1982 when he was only 28. In his early thirties, he helped Bolivia end its hyperinflation and restructure its debt. Only a few years later, he was drafting the Polish government's blueprint for transition from communism to capitalism. Stints as advisor to the governments of Russia, Estonia, Burkina Faso, and India—among many others—followed. Sachs campaigned for debt relief for poor countries and, as an advisor to UN Secretary General Kofi Annan, developed a plan to achieve the Millennium Development Goals. Since 2002, as director of the Earth Institute at Columbia University, Sachs has set his sights even higher. The Institute, an interdisciplinary group of 850 people, addresses some of the world's most difficult problems, from eradication of disease to global warming.

All this has given Sachs a superstar status few economists enjoy. In 2005, MTV aired a documentary of Sachs traveling in Africa with the actress Angelina Jolie. Earlier, he had toured with Bono, the lead singer of the band U2, as part of a campaign for debt relief. One of Sachs's Harvard colleagues at the time, noted economist Robert Barro, recalls that Sachs once invited him to lunch with Bono to discuss the campaign. Barro says his "instinct was to decline," but he was overruled by his teenage daughter, who said: "Dad, this is the coolest thing imaginable . . . Of course you have to go."

Sachs's work also provokes criticism that the policies he champions often have painful side effects. It's a charge he vigorously denies: "In Bolivia, Poland, and Russia, my work was like an emergency room doctor's. The patient was already in shock: hyperinflation, mass shortages, political instability, a collapsing currency, and pervasive fear. Armchair critics have little concept of the nature of such tumult, and of the challenges of devising policies in such confusion. Don't blame the doctor for the condition of the patient coming into the emergency room."

Harvard ties

Sachs was born in Detroit in 1954. His family's roots are in Grodno, once part of Poland and then of the Soviet Union. His father was a prominent labor attorney who was active in U.S. Democratic Party politics. His sister, Andrea, recalls that their father always reminded them "to do good while you are doing well." After considering becoming a lawyer like his father, he turned down Harvard's law school in favor of its economics department. It was to become his home for 30 years.

As an undergraduate he completed all the course requirements for a doctorate in economics. In 1982, he published a paper in the profession's leading technical journal, *Econometrica*, titled "Multiple Shooting in Two-Point Boundary Value Problems." It's true he had some help on the paper; his coauthors were David Lipton, now the IMF's first deputy managing director; Jim Poterba, now president of the National Bureau of Economic Research (the preeminent U.S. economic research organization); and Larry Summers, former U.S. treasury secretary and former president of Harvard. Even among such a talented cohort at Harvard, Sachs stood out, which the university recognized by giving him tenure at age 28.

What singled out Sachs, however, was not just his technical brilliance but also his interest in tackling the pressing economic issues of the day, formulating solutions, and lobbying for their adoption. Paul Krugman, the economics Nobel laureate, once wrote that "what sets Jeff apart is that he is a first-rate theorist who is also a major political force. It's a pretty amazing combination."

Miracle cure

Sachs's first major project was as economic advisor to Bolivia in 1985. The country was grappling with an annual inflation rate of 60,000 percent. Sachs says inflation rates that high mean that "if by accident you leave [money] in your wallet for a week or two you've lost a quarter of the value."

Of course, in such a situation people don't generally leave their money in their wallets. In fact, people get paid with huge stacks of money and immediately run to the market to try to turn the soon-to-be-worthless paper into goods that will retain value. Sachs says that "you really feel the urgency, and you, you really rack your brain to try to figure out anything that might work."

The answer in the end, says Sachs, was "very, very simple." Hyperinflation arises when governments face a budget deficit they try to close by printing money. The key to stopping hyperinflation is therefore to give governments some source of real revenue. In Bolivia, this required a sharp increase in the price of government-owned oil, which had been heavily subsidized by the state. Raising the price of oil to a realistic level ensured that when the government sold the oil, it "was earning enough money to pay the teachers." This closed the budget deficit enough that the hyperinflation stopped.

Sachs says the end of the oil price subsidies was "a progressive step." He says the poor bore the burden of the hyperinflation through the erosion of the value of their cash while "the rich benefited from the very low prices of gasoline." The biggest "beneficiaries were actually the smugglers, who bought petroleum products in Bolivia and smuggled them into Peru."

Along with the increase in oil prices, Sachs also fought for debt relief for Bolivia—the country's public debt in 1984 was 110 percent of its income. This put him at odds with the IMF, and not for the last time (see box). Sachs says that "this was a battle royal with the IMF and the banks, since the principle of debt reduction was not yet established in international circles." Sachs led the negotiations for the Bolivians, and in the end 90 percent of the external debt on the books was canceled.

By early 1986, the hyperinflation was gone, "and Bolivia's been one of the lowest-inflation countries in all of the Americas." The country's economic growth, however, remained modest, which gnawed at Sachs and led him later to important work on the roadblocks to growth.

Walesa's woes

Sachs's success in Bolivia led to business in many other capital cities. In early 1989, Poland's government approached him for help with the transition to capitalism. Sachs had long discussions with the leaders of the Solidarity union movement "about market economics and what could be done." The leaders were pessimistic about the chances for Poland's economic transformation.

Sachs assured them that it could be done. Markets could work if they were liberalized—that is, if prices were set by demand and supply rather than fiat. Once markets got going, domestic investment and foreign investment from the rest of Europe would rejuvenate Polish industry. And, echoing the advice he gave the Bolivians, Sachs told Solidarity: "Forget the foreign debt—it's going to be canceled."

After a few months, Solidarity began to come around. One night, Sachs and Lipton—his Harvard comrade—went to the apartment of one of the leaders, Jacek Kuroń. Sachs and Lipton sketched out a plan for the transformation. At last, Kuroń said, "Clear—write up the plan." Sachs said that he and Lipton would write it up once they were back in the United

Asian drama

Sachs has been a longtime critic of the IMF, and this did not change during the Asian crisis of 1997–98. In joint work with Steve Radelet, Sachs wrote that "explanations that attribute the contraction to deep flaws in the Asian economies, such as Asian crony capitalism, seem to us to be strongly overstated." Radelet and Sachs attributed the crisis rather to a "combination of financial panic, policy mistakes by the Asian governments at the start of the crisis, and poorly designed international rescue programs," which deepened the crisis more than was "necessary or inevitable."

Although they agreed that interest rates had to rise following the withdrawal of foreign capital, Radelet and Sachs questioned the "IMF's insistence on raising interest rates even higher and demanding a fiscal surplus on top of the huge withdrawal of funds that was already under way." The IMF's advice was based on the assumption that higher interest rates would lead to "stability or appreciation of the currency and that the benefits of currency stabilization in terms of lower external debt servicing costs would outweigh the short-run output costs from higher interest rates."

Radelet and Sachs, like many other observers, such as Nobel laureate Joseph Stiglitz, questioned whether the benefits were worth the cost.

States and send it in as soon as they could. Kuroń said, "No. Tomorrow morning I need the plan."

So Sachs and Lipton headed back to their office, where Sachs says they had put "slabs of wood over the sinks so you could put down a computer terminal." They wrote up a plan that night, "working from about 10 in the evening until I don't know if it was 3 or 4 in the morning." The Solidarity leaders looked at it and told Sachs, "You can get on an airplane and go to Gdansk. It is time for you to go see Mr. Walesa."

Polish pride

Work on the essential elements of the Sachs-Lipton all-nighter continued over the course of 1989, with the country's finance minister, Leszek Balcerowicz, playing a key role. Finally, Solidarity's economic plan was announced on January 1, 1990. Sachs says the moment was "terrifying [because] here was a country in hyperinflation, in chaos, in despair, financially bankrupted, shops empty, starting an experiment, as it were, that had never been done before."

Andrew Berg, now in the IMF's Research Department, was then a Massachusetts Institute of Technology Ph.D. student working in Poland: "You could say I was the Polish resident representative for Sachs-Lipton Associates," says Berg. He recalls that working with Sachs was "empowering; the hierarchy that mattered was the hierarchy of good ideas." Sachs's ideas often turned out to be the best. Berg says, "Jeff could cut to the bottom of complicated things," knowing exactly which "two-dimensional graph would really summarize the situation."

As Sachs and Lipton had advocated, the economic plan quickly liberalized prices and immediately opened up the economy to trade to relieve shortages of consumer goods and key production inputs. The plan deferred privatization of major state-controlled industries, Sachs says, since he "did not have detailed plans and this would take years to complete."

But the economic plan also led to a surge in prices, compounding the hyperinflation. Food prices doubled in a month, and the price of coal, critical to Poland's energy production, went up sixfold. Wages stagnated. "You go into this knowing that wages won't be able to rise as fast as prices," says Sachs. "That's the whole idea."

Sachs also lobbied for financial support for Poland from Western governments and international agencies. Berg recalls using his AT&T phone calling card so that Polish Finance Minister Balcerowicz could call IMF Managing Director Michel Camdessus to request assistance.

The initial pain caused by the plan led to criticism of Sachs then and since, but there can be little question about the longer-term gain.

A bigger challenge

As Poland started to turn the corner, its experience attracted interest in Russia. Sachs started working in 1990–91 with the Soviet economist Grigory Yavlinsky to design a plan of democratization and economic reform, backed by Western technical assistance and financial support of $150 billion over five years. The plan took the name "Grand Bargain."

At the end of 1991, Sachs was officially appointed an economic advisor to Boris Yeltsin. Lipton and Anders Åslund, now a senior fellow at the Peterson Institute for International Economics, were his key associates. Åslund says that "apart from the Gaidar team of leading young Russian reformers, there was little domestic expertise to draw on." Therefore, the team consisted of young Russian economists with Western training and economists recruited from the West, including Berg and Andrew Warner, then a recent Harvard graduate and now in the IMF's Research Department.

Sachs says they "were given the ultimate measure of trust in those days: a permanent pass to the Council of Ministers building and a few offices inside for our permanent Moscow-based employees." Berg recalls that when he landed at the Moscow airport, he was whisked through immigration into a waiting limousine, and "there were separate lanes for limos." Yet, Berg says, there was an air of disintegration: "There was a smell of gasoline in the air which I was told was because it was being stored in the trunks of limos and cars." Russia's economic mainstay, oil and gas production, had been hit by the plummeting oil prices of the mid-1980s.

The region lacked the history and practice of market economics. Warner says that much of what Sachs and his team did was "commonsense economics," explaining the basics. "We were trying to stop credit from growing 25 percent a month and carry out basic budget reform." Sachs was "intellectually honest," says Warner, "always trying to get the numbers right and promote good analysis."

Russian reversal

In Russia, however, Sachs and his team could not pull off the success they had achieved in Poland. In a long defense of his record titled "What I Did in Russia," Sachs argues that the results were disappointing because his advice was ignored to a large extent by the Russian team and almost entirely by the West. While Sachs's recommended elimination of price controls took place at the start of 1992, his advice to tighten the money supply and end subsidies to firms was ignored. As a result, high inflation "continued unabated for several years," giving the reforms a bad name.

Åslund says that Sachs and his team also "did not manage to get through the deregulation of energy prices and foreign trade." This meant that "some people could buy oil for a dollar and sell it for $100 on the world markets and hence had no incentive to reform." Sachs's advice that the large natural resource companies remain in state hands was also ignored; instead, says Åslund, the "sector was privatized in a corrupt manner, giving rise to the oligarchs."

But Åslund says the biggest reason for the failure was that, contrary to Sachs's advice, "the West didn't lift a finger for Russia." The Group of Seven (G7) countries (Canada, France, Germany, Italy, Japan, United Kingdom, United States) gave little financial assistance themselves, but instead passed the buck to international financial institutions such as the World Bank and the IMF. John Odling-Smee, then director of the IMF department with oversight over operations in Russia, has written that "by not providing large-scale financial support themselves" the G7 put the IMF in roles that "were sometimes contradictory." On the one hand, the IMF was expected to lend to Russia on the basis of policies that met the "normal standards" of the institution. On the other hand, the institution was expected to relax those standards when the G7 wanted to show its political support for the Russian government.

Odling-Smee says that as a result of these dual roles "an atmosphere was sometimes created, for example at the end of 1993 . . . in which the IMF felt that it should err on the side of supporting weak policies rather than interrupt" loans to Russia. Sachs continued to advise the Russian government

After 30 years focusing on problems around the globe, Sachs has now also turned his attention to ills closer to home.

through 1993, but when that year turned out to be "even more dreadful [in terms of policy actions] than 1992," he and Åslund publicly announced their resignation in January 1994. Berg says that Russia turned out to be an "eye-opener about the limits of good people and smart ideas to bring about change for the better."

Resource curse

In the mid-1990s, Sachs turned his attention to the question of why some countries were rich and others poor. His experience in Bolivia and Russia was a motivating factor. Bolivia licked hyperinflation in the 1980s but its economic growth remained modest. Sachs felt that this was due to the country's "precarious reliance on a few primary commodity exports," as well as "its extraordinary geographical situation as a landlocked Andean country divided between the extreme highlands and tropical forest lowlands."

At first blush, commodity exports would appear to confer easy riches on a country. But Sachs and Warner noted the empirical regularity that growth was slow in many resource-rich countries, tapping into an early vein of work claiming that "easy riches lead to sloth." The French philosopher Jean Bodin wrote in 1576 that "men of a fat and fertile soil are most commonly effeminate and cowards," whereas a barren country makes men "careful, vigilant, and industrious."

Sachs and Warner noted that several historical examples appeared to bear out Bodin's belief. The Netherlands outstripped gold-rich Spain in the 17th century. In the 19th and 20th centuries, resource-poor Switzerland and Japan surged ahead of Russia. And in the 1970s and 1980s, several Asian countries, such as Korea and Singapore, raced ahead of resource-rich African and Latin American countries.

Sachs and Warner confirmed the adverse effect of resource abundance on growth through a worldwide comparative study. Their statistical analysis established that "resource-poor economies often vastly outperform resource-rich economies in economic growth."

An end to poverty

Over the past decade or so, Sachs's attention has been focused on Africa and on bringing about an end to poverty there. He was instrumental in the success of the Jubilee 2000 debt relief campaign to persuade creditor nations to cancel the huge debt of developing nations. Sachs and Bono lobbied presidents and prime ministers—and Pope John Paul II. The effort was successful. In 1999, the Group of Eight (G8) countries (G7 plus Russia) committed to $100 billion in debt cancellation by the end of 2000. "When this man gets going, he's more like a Harlem preacher than a Boston bookworm," wrote an admiring Bono about Sachs.

In 2002, Sachs left Harvard after more than 20 years as a professor to become director of Columbia University's Earth Institute. There he launched his most ambitious project to date. Called the Millennium Villages Project, it is Sachs's attempt, with the backing of the United Nations, to help rural Africa achieve the Millennium Development Goals, the global targets for improving human development, by 2015. The project provides large-scale aid to a total of 15 villages in 10 countries to help combat poverty and disease. The villages receive high-yield seeds, fertilizer, drinking wells, materials to build schools and clinics, insecticide-treated nets, and antiretroviral drugs.

The early returns from the project are in. Human development indicators are better on most counts in the millennium villages. But it's possible that these improvements would have occurred even without help from Sachs's project. Establishing that the project made a decisive impact—say, by comparing the results to those of villages that were not part of the project—is a matter of active debate.

Homeward bound?

On a trip to Washington, D.C. in 1972 as a high school senior, Sachs sent his girlfriend a postcard of the White House and wrote "Home at last" on the back. After 30 years focusing on problems around the globe, Sachs has now also turned his attention to ills closer to home. His latest book is titled *The Price of Civilization: Reawakening American Virtue and Prosperity*. The *Financial Times* says that Sachs "has the air of the world traveler who returns home to find his country a much worse place than he remembered." Sachs laments such U.S. problems as lack of job creation, decaying infrastructure, falling educational standards, increasing inequality, soaring health care costs, and blatant corporate dishonesty.

Sachs is characteristically optimistic about the United States despite this laundry list of complaints. "If Poland can make it from communism to capitalism," he says, "we can surely make it from one form of capitalism to a better form." ■

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