

*Raised and educated in exile in the U.S., politician Gonzalo "Goni" Sánchez de Lozada played a key role in stopping hyperinflation in Bolivia in 1985. He served as president of Bolivia from 1993 to 1997 and was reelected in 2002, his second term marked by social unrest among a population living in extreme poverty.*

*In this interview, Sánchez de Lozada discusses his background, the phenomenon of hyperinflation, how "shock therapy" stopped it, and models from the left and right for successful economic reform.*

## **Bolivia's Political History**

INTERVIEWER: Why has Bolivia seen so many military coups?

GONZALO SÁNCHEZ DE LOZADA: There has been a great deal of institutional instability, but it's interesting to note something that few people will realize: From 1825 to 1995—1825 is when Bolivia was founded [and] became a republic, and 1995 is when the study was concluded—Bolivia had fewer changes of government than Great Britain, and Great Britain is seen as the example of democratic stability, while Bolivia is seen as the example of instability in democracy. The reason we have had so many military coups is that many times, when we have had big problems, we haven't been able to really resolve them. We haven't had the flexibility that comes when you have the ability to change the prime minister of the party or take a vote of non-confidence. But undoubtedly it was institutional weakness and non-participation. You have to realize that it was only in 1952, after the national revolution, which my party led in Bolivia, that the people really were given the vote. Before that it was a very, very qualified vote. Two hundred thousand people voted, and today it's three million people. Back then women couldn't vote; peasant farmers couldn't vote. You had to take a literacy test, pay property taxes, and take a series of tests to make sure that democracy wasn't participated [in]. Only now have we achieved the basic stability of democracy, which is to have the people participate in elections.

## **Goni's Personal and Political Influences**

INTERVIEWER: You spent a great deal of your life in exile. How many years were you abroad, and why were you abroad?

# COMMANDING HEIGHTS

**Gonzalo Sánchez de Lozada**

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GONZALO SÁNCHEZ DE LOZADA: Well, *I* wasn't really in exile; my father was in exile. First of all, he was a diplomat, so when I was one year old we went to Washington. He was the first secretary of the then Bolivian legation. While we were there, there was a military coup, and a democratically elected president was put out of power. My father had made a very well-known public statement, probably a rash statement, that he would never live in Bolivia while there was a military government, and he was condemned the rest of his life to live outside, or, when there was a democratically elected government, to be the ambassador in Washington. So in the long and short of it, except for visits here to Bolivia, I spent the years until I finished college in the United States, and then came back here. The son of an exile is always more Bolivian than the Bolivians.

INTERVIEWER: What did your time living abroad teach you?

GONZALO SÁNCHEZ DE LOZADA: It was very positive because I knew I received a number-one grade education. And I knew I was very connected to the rest of the world, and I was not dependent on the lands that my family had in Cochabamba, where my father's family was a land-owning family. When land reform came along, we didn't feel it, because we had become accustomed to not being dependent on rents from the land to live. We [also] had another view: We had a deep devotion and affection towards Bolivia that had been kept alive in my family. And of course, the big extended family—my father's side in Cochabamba and here in La Paz, and my mother's side—made me a Bolivian patriot, but with a view through a window onto the world. Today this is very accepted, but at that time, in the late '50s and the '60s, when I came home to Bolivia, it wasn't that common. We were much more parochial and internally oriented.

INTERVIEWER: You went to college at Chicago, but you didn't study economics there, did you?

GONZALO SÁNCHEZ DE LOZADA: No, I did the great books courses. I got my degree in philosophy and English literature; those were my main interests. As soon as I finished I came back to Bolivia and devoted myself to filmmaking, then slowly went into aerial photography, petroleum services, mining, and once again came back to politics, that strange circle of destiny.

INTERVIEWER: Would you describe yourself as a politician of the left or the right?

GONZALO SÁNCHEZ DE LOZADA: I was always a reformer. My father and mother were progressives, and they believed in the universal vote, vote for women, land reform, and a lot of things which at one time were not accepted; they're much more accepted now. Let's say my party and my policies were center left, but I've always been seen as center right, because I was the person who had to bring fiscal orthodoxy and sanity into the management of the budget. I was very identified with and accused of being a neo-liberal, with respect to the economy. But at the same time it's interesting to note that nobody has changed the policies I put in place, and it's already been more than 15 years since we stabilized the Bolivian currency.

INTERVIEWER: You said you like to quote the Chinese leader Deng Xiaoping. What was the quote, and what did it mean to you?

GONZALO SÁNCHEZ DE LOZADA: At the time we had the hyperinflation, we had to take some very, very energetic steps. Fame had decreed to call it the 21060. Degree 21060 changed Bolivia from a state-run economy, a controlled command economy, to a market economy. When we did all of this, people were very upset, because we liberated all prices, all imports, and all exports, interest rates, exchange rates. This was very unorthodox and against the established theories of how you ran an economy. Especially on the left, many of the people in the left of my party were upset. I would quote what Deng Xiaoping of China said: "It doesn't matter what color the cat is, the only important thing is that it catches mice." That pragmatism of the Chinese, who went to a market economy without going to a democracy, led people to see that you have to be respectful of the fact that only with a market economy can you get the proper assignment of resources and the proper flexibility that you require. It's very hard to handle a command economy.

INTERVIEWER: You're a man of center left, but were you influenced considerably by people who are almost certainly from the right—[Ludwig] Erhard and [Margaret] Thatcher?

GONZALO SÁNCHEZ DE LOZADA: Maybe more Erhard than Thatcher. I'm an identified democrat, and democracy is a free market of ideas and personality, so this didn't lead me to

the reactionary right. I would say I'm a fiscal conservative and a social liberal, if that contradiction can make sense, because in Bolivia, we have a great problem, which is the inequity of income distribution. The rich aren't that rich, but the poor are very poor. Whereas in the United States the upper 20 percent might earn 10 times more than the lower 20 percent, here it might even be 60 times as much, so the problems of poverty, the problems of exclusion, lead you to be very proactive in government. We're all learning all over the world that you do better in the economy if you're conservative and very responsible in fiscal management.

INTERVIEWER: Did you learn anything from the example of Ludwig Erhard in Germany or from the economic experience of other countries?

GONZALO SÁNCHEZ DE LOZADA: Two experiences influenced greatly what happened in Bolivia. One was the experience of New Zealand, where a liberal government—a Labor government—had to undo very restrictive economic policies, imposed, ironically, by Conservatives under the Conservatives. Everything was micro-managed. The second great influence was the Chinese experience. Many of the national movements like my party's movement, revolutionary movements of social change and redistributive policies, were very, very influenced by China. At that time, the thinking of the left, even if you weren't communist, was very affected by the big fight between the Stalinists and Maoist policies, and China was very influential. It was seen as much more responsive to what could be considered our needs—the needs of an agrarian society with a great deal of poverty. What had a great impact on us was what happened in China when they opened up their economy and went to market economics. Although they didn't go to democracy, it had a great impact on people. That had a bigger influence on us than what had happened with Germany, because we always saw the German process as coming out of the war, and maybe imposed by the realities of the postwar economy. Obviously there were [other] examples, and we used them profusely when we went to apply different policies, but the big leaders here were New Zealand and Red China.

INTERVIEWER: Did Margaret Thatcher of England have any influence on you?

GONZALO SÁNCHEZ DE LOZADA: Somewhat, but we always saw that as too radical a position with the rhetoric. We always kept the rhetoric to the left and the policies to the right.

Everybody said we went around with blinkers to the left but we were always swinging towards the right. That was one of the outstanding criticisms that existed.

## **Debt Crisis and Hyperinflation: Latin America's "Lost Decade"**

INTERVIEWER: The whole of Latin America was in deep trouble in the '80s. What had gone wrong?

GONZALO SÁNCHEZ DE LOZADA: Two things had gone wrong. The reigning Latin American policy or economic model was import substitution, so you had very insular types of economies with high tariff walls and a lot of protection, and they felt that they had to industrialize. This wasn't, per se, a mistaken policy, but it was combined with a great deal of growth that was generated by petrodollars, the big boom created by all the money circulating in the world because of the big increase in petroleum prices. During the 1970s the banks started lending money to a lot of these countries, supposing that countries don't go broke—and they were right, but sometimes countries just don't pay. This paradigm that led the bankers into very unwise lending decisions took us to a point where we just couldn't face the big debt payments that were forthcoming, and the money invested in Bolivia by foreign banks stopped being rolled over. You started having a debt crisis that led to hyperinflation because governments just weren't willing to cut back in their fiscal policies, so most of them ended up with no credit rating, no capacity to borrow, and uncontrolled inflation internally.

INTERVIEWER: Why did the debt crisis lead to inflation and hyperinflation? What was the exact mechanism?

GONZALO SÁNCHEZ DE LOZADA: What happens is what happens with a lot of people. Let's put it in very simple terms. If you give a person an unlimited amount of credit on his credit card, there comes a moment when he just can't pay it back. The debt has grown to such an amount that unless the credit card company is willing to keep giving you new lines of credit, new margins, you just get into deep trouble.

Bolivia and these other countries just borrowed too much. So the banks were about to fold, and the governments were about to fold. And also these countries borrowed too much money,

and they didn't really have a flexible economy. They had fixed exchange rates, which, as inflation started up, made it very attractive to import and very difficult to export.

And of course we also got hit by a double whammy in almost every part of Latin America. We were hurt by raw material and commodity price drops during the '80s. The petroleum-producing countries were very happy, but take the case of Mexico. At that time, 90 percent of Mexico's exports were oil, but today 10 percent of its exports are oil, so there's been big change in the Mexican economy. But at that time, in the 1980s, Bolivia was an exporter of raw materials, so we were very, very subject to an external shock if those prices went down.

Secondly, we were offered unreasonable amounts of money in loans because the international economy was full of petrodollars, and the governments and the banks, who were very unwise in their lending policy, came to the happy conclusion that countries don't go broke. It's true, but sometimes they don't pay. Finally, the economic model that they had [was] very restrictive, not very open, so you didn't move. Exchange rates were fixed; expenses were locked in and very rigid. They weren't moving, so you ended up in a terrible crisis, which made the '80s the "lost decade" for all of Latin America.

INTERVIEWER: Were the governments here, in effect, just printing more money?

GONZALO SÁNCHEZ DE LOZADA: It became that. In the Bolivian inflation, which, as you know, achieved something close to 25,000 percent in the 12 months previous to our party coming to power in government, we found that at the moment when we stopped the hyperinflation, 93 percent of the expenses of the government were being paid by Central Bank credits. They were just printing money. They were only able to collect 7 percent of the needs of the government through taxes, so it became very comfortable to call the Central Bank to send money and to keep spending, until it got out of control. Inflation got out of control.

INTERVIEWER: So the short-term fix was just to call the Central Bank and say, "Print more money."

GONZALO SÁNCHEZ DE LOZADA: Yes. It was just terrible. One of the effects of inflation is that it becomes very hard to collect taxes, because with taxes, as you know, your company

may owe \$100,000, but by the time you need to spend it, it's worth only \$50,000, and by the time you have to pay it or declare it in taxes it's worth only \$50,000. So your tax basis is depreciated by inflation.

## **The Experience of Hyperinflation**

INTERVIEWER: Can you describe what it's like to live through hyperinflation for ordinary people? What actually happens?

GONZALO SÁNCHEZ DE LOZADA: First of all, a lot of poor people survive by speculating. They buy bread, and then they sell it at a higher price. They bring it to a wealthier neighborhood. Usually in these countries, where there were command economies with controlled prices, they also had controlled interest rates. You had to have licenses to import, and you had high tariffs. It was a very controlled economy. So a lot of people made money by buying at the official rate and selling at the black-market rate. The economy becomes a gigantic black market, and many times you'd have people standing in line not knowing what was being sold, but standing in line because whatever you could buy, you could sell it for more bolivianos, the local currency, after a few days.

So there was a great deal of speculation, and as a result there was a great deal of scarcity. During hyperinflation you can't find anything; the shelves are empty, and there is a great deal of corruption, because the foreign exchange rates are fixed. So the Central Bank and the government sell dollars to the importers at a very subsidized price, and then the importers resell the dollars, or find ways to pay them to suppliers who aren't really supplying what they've been receiving payment for, on the black market. So there's [an] immense amount of corruption, destruction of the institutions of the country, and a great deal of speculation. People survive by buying and selling, because they know that anything they have in their pocket will be worth very little money in a few days more.

INTERVIEWER: You once used the word "frightening" to describe hyperinflation. What was frightening about it?

GONZALO SÁNCHEZ DE LOZADA: It was frightening because you had continuing social unrest, because all the labor unions were asking for pay raises, and as they say, in an inflation the

prices go up by the elevator but the salaries go up by the stairs. So you had a great deal of social unrest. Everybody was out striking, demonstrating. There were crowds in the streets, and there was a great deal of political instability. No one knows what's going to happen next. They don't know when violence is going to descend upon us, and you have teachers and everybody has a fixed salary just finding them impoverished, and the middle class is destroyed. The poor get poorer and the rich get richer, because the rich know how to hedge their bets; they know how to buy dollars and how to put everything in fixed terms. But the poor lose their savings, and the middle class gets squeezed very badly, so it's a terribly destructive process. The hyperinflation in Germany in 1923 was probably the cause of Hitler. Hyperinflation leads to great social, political, and, of course, economic problems. If they're not stopped, it's like a tiger and you only have one bullet. With hyperinflation, if you don't kill it, it'll eat you.

One other thing that you always remember about hyperinflation is that you go to banks and you take out immense amounts of money. Everybody becomes a millionaire. When we stopped the hyperinflation in Bolivia, the dollar was worth two million bolivianos, and it started at 100 bolivianos. When it really gets going, you're taking your salary home in wheelbarrows, because the government keeps printing and printing, and it gets to a point where the cost of making the coins and the money is higher than the value of the money.

INTERVIEWER: In terms of the world perspective, how bad was it in Bolivia?

GONZALO SÁNCHEZ DE LOZADA: It was very bad, because at that point, when we were studying inflation, we found that Bolivia was the seventh highest inflation in the history of man. Germany was the record breaker, but there'd been countries like Hungary and others. Usually, though, the big inflation was connected to wars and to civil wars or international wars, and we were in a class of our own, because we achieved this great hyperinflation without having military or civil strife. But it was world-class inflation when it happened, and it was very, very destructive to the society and to the economy and to our institutions.

### **Shock Therapy: Taming the Tiger**

INTERVIEWER: What does the phrase "shock therapy" mean?

GONZALO SÁNCHEZ DE LOZADA: At that time, there were two big arguments. First of all, people felt you couldn't stop hyperinflation in a democracy; that you had to have a military government, an authoritarian government to take all these tough steps that had to be taken. Bolivia was the first country to stop hyperinflation in a democracy without depriving people of their civil rights and without violating human rights. And two, there was a big discussion whether you could stop hyperinflation or inflation period by taking gradual steps. Many people said you had to take it slowly. You have to cure the patient. Shock treatment means you have a very sick patient [and] you have to operate before the patient dies. You have to get the cancer out, or you have to stop the infection. That's why we coined the phrase that inflation is like a tiger and you have only one shot; if you don't get it with that one shot, it'll get you. You have a credibility that you have to achieve. If you keep to gradualism, people don't believe you, and the hyperinflation just keeps roaring stronger. So shock therapy is get it over, get it done, stop hyperinflation, and then start rebuilding your economy so you achieve growth.

INTERVIEWER: Whose idea was shock therapy?

GONZALO SÁNCHEZ DE LOZADA: I would say it was very much a discussed idea. This famous decree, 21060, that stopped hyperinflation in Bolivia took three weeks [to formulate]. Victor Paz was sworn as president in the sixth of August; on the 29th of August we came out with the decree. We spent one week saying, "Do we really need to do something? Do we really need radical change?" and then another week debating shock treatment versus gradualism. Finally, we took one week to write it all up. And it was a very big decree—220 articles. It covered all aspects of the Bolivian economy. [The] argument about shock therapy was taking place inside our party, inside of our society, inside of the community of economists. There were people who said, "You can do it; you can bring up interest rates, and you can tighten it." Well, when it gets to the point of hyperinflation, when you study what had happened in history, and we studied the German inflation, you find that they're only stopped when you have political credibility—in other words, when a new government comes in. And if the new government acts very rapidly in the first 100 days and takes steps, initiates a shock treatment that stops it once and for all, then you start working on getting the patient to recover and achieve economic growth.

INTERVIEWER: Where and how was a lot of that work actually done?

GONZALO SÁNCHEZ DE LOZADA: It was actually done here in this room, because we had a working group. President Victor Paz set up a task force, and I was the president of the Senate then, and he asked me to come in and be the coordinator. There were two ministers, there were two businessmen, two economists, and two lawyers, and I was the coordinator. There were nine of us working here around this table, because the ministers in the morning would work here, and in the afternoon they would go and spend money and cause more inflation. But they had big teams of technocrats working on what is usually the solution to economic problems. They would get 20 decrees [each], but we were working on one big decree that would stop hyperinflation, and it was done here.

I asked for leave of absence. People explained my absence [by] saying I was trying to get economic support from the United States or the World Bank, the International Monetary Fund. Of course nobody was talking to us. At that time Bolivia was a basket case. So we did it ourselves, and after we did it, we found out that we had only \$12 million left in the Central Bank. We were flat broke, and the economy was really, really just caving in. So it was all done here. As I said, we worked together in the morning, and then in the afternoon the technical people—the lawyers and the economists and the others—would work on writing it up, and in the morning we would review it. Every two or three days I would take it to the president to show how we'd advanced, and get his criteria. And he would direct us with a great deal of wisdom, saying, "Look, boys, you've got one chance, and remember, as Machiavelli said, 'It's all the bad news at once, and the good news little by little.'" So he said get it all done, and we did it. In this Jeff Sachs was indirectly influential, because in his visits he said, "Look, all this gradualist stuff, it just doesn't work. When it really gets out of control you've got to stop it, like a medicine. You've got to take some radical steps; otherwise your patient is going to die."

### **Jeffrey Sachs Comes to Bolivia**

INTERVIEWER: How personally did you come to meet Jeff Sachs?

GONZALO SÁNCHEZ DE LOZADA: It was at a cocktail party. Jeff Sachs was hired by our opposition. Gen. Banzer's party brought him in because some of the people that were in Gen. Banzer's party had studied at the Kennedy School of Government, and Jeff Sachs was a very influential and convincing person. He was very interested in seeing hyperinflation functioning, and they brought him down to give them a policy talk. He gave a policy outline of what he felt

should be done—liberating controls; controlling your fiscal variables; spending what you had; not spending what you didn't have. I remember [when] I met him I said, "I'm very pleased that you're studying this, because we're going to beat these guys, and you can come and work for us." They all laughed. ...

INTERVIEWER: [So, the] key decrees have already been passed.... What is his importance in the big picture?

GONZALO SÁNCHEZ DE LOZADA: I think we would have done a better job of the key decree if we could have had him. Remember, Jeff was working for an opposition party to our government. The inauguration had just taken place, and our opposition, very bitter opposition, was Gen. Banzer. [He] won the elections, but on the second round in the Congress he was eliminated, and so he wasn't very cooperative. We asked officially, through members of his party, to have permission to ask Jeff to come down. We knew he had worked, and we knew he was influential and impressive and could get his message across, but we didn't have his assistance. But once we took the decrees, Victor Paz was able to [make] a political deal on an alliance with Gen. Banzer's party, and then immediately we brought in Jeff, and he helped us to make these policies work.

We were immediately hit by two external shocks. The bottom dropped out of the tin market—that was our principal export—from \$6.80, it dropped to \$2.40. And we were also selling gas, which was tied to oil, to Argentina and petroleum products, and that dropped from \$30 to \$10. Jeff came in and told us, "If you just keep maintaining your spending, you're going to get back into hyperinflation again," so he obliged us to cut back and really maintain sound fiscal budget, balanced policies, which were very difficult to do. But he obliged us to do it, and I think he saved us from becoming another failure. He [also] took us to the real solutions, which are restructuring your Central Bank, getting your banking system out of the collapse that hyperinflation had led, and reorganizing your ability to collect taxes. We did a big fiscal reform, and Jeff was the prime mover.... I never underestimate Jeff's contribution. ...

When we became the government, we made the famous decree of 21060. [Again], after that decree had been issued, we were able to achieve a political alliance with Banzer's party, and at that point we brought in Jeff. And although Jeff wasn't really that influential in the initial

steps that we took to stop the hyperinflation, he was vital and decisive in permitting us to be able to execute this policy over time. He led us into tax reform so we would really collect taxes, because at the beginning we were able to stop hyperinflation [simply] by not spending what we didn't have in taxes. But he led us into a tax reform that was very simple—seven taxes instead of 450 taxes—and he led us into different policies towards banks and development to re-achieve growth. So he was very influential, not in stopping the hyperinflation, but in making sure that it stayed stopped and that we could re-achieve growth, which we did for the first time after 10 years. ...

I just have to clarify that at that point we had help from nobody. We were totally alone, because the World Bank had closed its office, the [Inter-]American Development Bank was still here, and the IMF had pulled out its representative, and the American government and other friendly nations wouldn't answer the telephone, so we had to do all this alone. We were considered a basket case. We were considered hopeless, compared at that time to Bangladesh and other places that had terrible problems of governance and of poverty. But we did it alone. It was a Herculean effort that got it going, and we brought in people like Jeff and others. Many others joined him, but basically Jeff was a prime mover in how to make this stability stick, how to achieve growth. In the long run the people will only accompany you if they can see light at the end of the tunnel, and that's growth in their income and growth in the economy.

### **Stabilization Out of Shock Therapy**

INTERVIEWER: When you say Jeff Sachs gives you the technical advice to be financially orthodox—in other words, when your exports start to drop, you've just got to spend less—that has a real impact on ordinary people's lives. What were the effects?

GONZALO SÁNCHEZ DE LOZADA: The only effect is that at that point ordinary people understood that if government spends what they don't have, they're going to collect it in very indirect tax, which really hurts the poor, which is inflation. Jeff kept telling us, "Now look, if you don't cut this expenditure, and if you listen to the sirens of being popular, you guys are going to go right down the drain." So I became a communicator. I was very, very unpopular, but I was very credible. I kept going to the people and saying, "We're doing this because we have to save stability, and you just can't keep spending." Even [though] we had a very tight budget, we had to cut it more, simply because we had been hit by external shocks, and what

he told us was don't put it off, do it, and explain it to the people, and the people will accompany you if you have credibility and you're taking the steps at the opportunity. If you put it off, if you want to finesse it and forget it and push it aside hoping that things will improve, you'll find it very difficult to apply; it's too late.

INTERVIEWER: In concrete terms, what are these steps? Is it closing down schools and hospitals?

GONZALO SÁNCHEZ DE LOZADA: We did it. We liberated all prices and froze payrolls, created a six-month freeze between companies and their unions [so] they could negotiate. But in the public sector at that time, which was very large, because you had many big, public, state-owned companies like electricity, oil, transport—most of the economy was in the hands of the state. In that time, when we did all of this, it was very hard, and we told the people [so]. It was very interesting to note that we did a study, and we found that the most we could offer was a 15 percent pay raise. And [there were wise people who] said, "Don't give it to people; they'll hang us." It's better to give zero than to give something that's insulting, so we gave zero for six months, then put a freeze, and we just slowly just started bringing up salaries of the different public servants in health, education, army, and police, very, very slowly according to what we could do collecting taxes.

### **Bolivian vs. Chilean Reform: Authoritarianism vs. Democracy**

INTERVIEWER: Were you in any way influenced by what happened in Chile a few years before?

GONZALO SÁNCHEZ DE LOZADA: Yes and no. Remember, Chile was the paradigm that you couldn't stop a hyperinflation without an authoritarian government. [President Salvador] Allende and the Chilean democracy had gotten into deep trouble because they lost all control. For political reasons, ideological reasons they started nationalizing industries, and they had a lot of problems and a great deal of conflict in the Chilean politics.

It ended up with a coup, and everybody felt if you got into trouble you had to bring in the military; you had to give up your civil liberties, your human rights to be able to solve the economic problem. They felt that was the price of solving hyperinflation, and we were able to

show that it could be done in a democracy. We had to take very dramatic steps. We had a state of emergency, which is in our constitution. We had to take a lot of people prisoner who had stopped strikes at the oil refineries, and finally we had to get the full support of the Congress, set up a strong alliance, and make it work. And we had the credibility—political, social, and economic credibility. The importance of the Bolivian experience was [it was] the first time in Latin America that stabilization had been achieved in a democracy without going against people's human liberties, letting people express themselves. And there were some very unhappy people, but convincing the people that this was the only way out and that, although it hurt, they had to take the medicine.

INTERVIEWER: Just jumping back to Chile, would you be critical of people that knocked Milton Friedman [for his work in Chile during the Pinochet years]?

GONZALO SÁNCHEZ DE LOZADA: I don't know if I would. I've never liked to judge other people in the hope that they won't judge me, but I don't know what took it to him. Personally I could not be a party to any sort of effort that was done outside of the context of democracy. My father was exiled for it; I was identified with it. I only became involved in politics when democracy returned to Bolivia. Then, unluckily in democracy, we ran into the inheritance of 20 years of military government, a great deal of debt, and a great deal of expense.

I wouldn't judge anybody, but I wouldn't do it, because I think that democracies are flexible enough, and they have enough authority if they are well run by people who know and that they've been truly elected by the people, to take the steps that have to be taken. I think we're in trouble.

### **Bringing Bolivia to Eastern Europe**

INTERVIEWER: Bolivia was, if you like, the first country to tackle hyperinflation in democracy. Was what you did here influential on the rest of the region?

GONZALO SÁNCHEZ DE LOZADA: Today we accept that there should be an interchange of goods and services, but there should be also an interchange of experiences. After Victor Paz's government, I was still in politics, but I personally spent a lot of time consulting and working with Argentina, with Peru, and in Brazil. Many times they would say, "Well, Bolivia's very

different," and I'd say, "Look, if Bolivia can do it, why can't you do it?" I think the Bolivian experience did have influence; it had impact on economic thinkers and on politicians. The fact that we did it in democracy, we did it without great social violence took people to study our case and slowly be influenced.

I don't think we were a dramatic influence. I think if we'd been more important and a significant country we would have had more influence, if we'd been Argentina or Brazil or even Chile, but the fact that we did it in democracy, it was very close to some of the things that Chile had done, but probably more flexible. We learned from a lot of mistakes of Chile.

Ironically, we had a bigger influence in other places. Jeff Sachs took the Bolivian experience and adapted it to the reality of Eastern Europe in Poland, and Poland has been a very successful transition. Then he took it to Russia. I don't say he took a lot more things to Russia, but he took the experience of Bolivia, and there he failed because there wasn't a political will. Everybody has to remember that economics is very tied to politics. Bad economics lead to social problems that lead to political problems, and usually you can't solve economic problems until you have political solutions, and Poland had it; Russia didn't; we did. We had good leadership, and we were successful. Our example was more important than actually what we did. The fact of a little country that could was always embarrassing to big countries that couldn't.

INTERVIEWER: Tell me about your meeting with Lech Walesa.

GONZALO SÁNCHEZ DE LOZADA: I met Lech Walesa at a big university seminar in Holland, and he came up to me and said, "I've always wanted to meet a Bolivian, especially a Bolivian president, because they're always making us take this very bitter medicine, saying you have to do it because this is what the Bolivians did. Now I know you, you're not that bad a guy, but I sure used to hate you."

### **Democracy and Free Markets: Keys to Economic Growth**

INTERVIEWER: Are there new rules of the game in Latin America? Have the rules changed?

GONZALO SÁNCHEZ DE LOZADA: There's a general acceptance of the fact that you must have a market economy to achieve growth, and you must have democracy to achieve the purposes or the ends of a human society. I think those are two accepted things. There [are] a great deal of doubts that have grown because the people haven't really seen the solutions. When we stopped hyperinflation, many people, especially from the left, especially after the Wall fell, would come and say, "Well, we're still poor," and I would say to them, with great patience, "Bolivia before we stabilized the economy was a poor country with hyperinflation; Bolivia after we stabilized the economy is a poor country with stability." That doesn't mean we've solved the problems, but this was a necessary step, not sufficient, and in my government, as president, I took many steps in political and the social and the economic areas to be able to achieve growth and better distribution. The purpose of this society is social equity. You have to achieve growth, because that's number one; employment; you have to have decentralized democratic institutions, local government, not only an elected national government, [but also] strong local government. You have to have redistribution of wealth policies, which are basically health and education—above all, education. You have to have a well-regulated society. That means justice; it means superintendence, because free markets are competitive. Democracy is also very competitive, so you have to have rules and umpires. And finally, you have to be very, very connected and very close to the environment. Much of our poverty is connected to environmental degradation. These areas are the purposes of government, but you can achieve it without a sound economic policy that creates jobs. Now it's under a great deal of pressure because people haven't seen the growth. The Asian crisis was tough on us. Now we're facing a possible—heaven forbid—Japanese and U.S. crisis, and we're still very vulnerable, and the future of our countries or our societies, our economies, are in integration. We're not doing it. We would like to see United States leadership so we could achieve a hemispheric market where we can have a free interchange among ourselves and with the big markets of the North, of our manufactured products of creativity, not only raw materials—but that is down the road. Right now it's been very much criticized, but I still think democracy and free markets are the things that will lead us to solutions, which we haven't achieved, but without the two of them I don't think we can achieve them.

### **Globalization and Latin America**

INTERVIEWER: In your view, can a poor country benefit from the new world economy?

GONZALO SÁNCHEZ DE LOZADA: Of course it can. I don't think you can benefit from being isolated. But of course we have a lot of people that [think] we should open up our economies, but they don't open up theirs. I don't see what damage we could do to Great Britain or to Germany or to the United States or to Canada. But it's very hard for us to export our products. What happens is we end up exporting drugs or people, surely not what we want. We'd like to keep our people here. We'd like to educate them. We'd like to have them produce and be fulfilled. And we surely don't want to be in the drug business. We made a big sacrifice to eradicate it because it's going to destroy us, but I think in a way what there has to be is a new wave of solidarity, opening up and letting the Third World be like Mexico was, [which has] received and has achieved stability and growth. It's not only giving away; it's not charity. It's a new policy that would permit people to interchange goods and services and experiences in a framework of free market and in a framework of a democratic institution.

INTERVIEWER: Thinking about globalization in general, what are you most optimistic about?

GONZALO SÁNCHEZ DE LOZADA: Well, technology is the future for the century. For a country like Bolivia, one of the poorest in the hemisphere and in the world, I think the Internet is going to change a great deal. You have to spend a lot of money on education. I think solar energy is going to make the Internet available to people who don't even know how to read and write today, but they can. I'm a great believer in bioengineering and genetically modified crops. I'm very, very worried by the resistance from the developed world to really study this, because we have to produce more food for our people; we have to achieve certain levels of calorie intake. I know that many people around the world, including myself, probably eat too much, but most of the world eats too little, and I think that these three big things in technology can really change it. The fourth big area that can change it would be if we would have money intelligently spent on vaccinations, because we're very hurt by Chagas, by malaria, by tuberculosis. AIDS isn't present, but it could be here. If we would really work on world health, which even the richest countries can't protect themselves from, I think the future—globalization, technology—holds out great hope, as long as it's made available to all and we have a chance to compete on an even playing field. If it isn't that way it's going to, like all change, like the Industrial Revolution, it's going to make the poor poorer and the rich richer.

INTERVIEWER: What worries you most?

GONZALO SÁNCHEZ DE LOZADA: That protectionism, neo-protectionism will prevail. That will hurt, because when you look at even economies like the United States, the European economies, Japan, they need people to buy, and to those, they have to sell. They have to buy from people if they want to sell, and the world economy has to achieve like Europe has achieved. It has to become a freer and a more open economy. We're going in the other direction, but I think that [openness is] the future. I'm very worried about this neo-protectionism of all types being introduced and our difficulty in achieving flows of goods and services, which is the future for a better standard of living for the many, many billions of people in the world who are below the poverty line and who are going to cause, either through disease, through immigration, or through environmental degradation, great problems for all the world.

INTERVIEWER: You've seen a great rise in the anti-globalization movement, if that's the correct word, with demonstrations in Seattle, and there's a huge demonstration planned at Quebec. What would you say to those people?

GONZALO SÁNCHEZ DE LOZADA: I would say that the solutions are going to be down the road. What they're really doing is throwing out the baby with the bath water, and I think their policy agitation could be for more environmental sensitivity, labor sensitivity, more openness instead of closing it down. I think it's nostalgic. There's a lot of disappointment with people in the world that socialism didn't work and that we have a society that doesn't have that many ideological options. We have to go back to an ideology, and that's to understand that our purpose is to create social equity, but that is through growth, through trade, and through democracy.