Jeffrey Sachs is considered one of the world's foremost economists, having advised dramatic reforms in Bolivia, Poland, and Russia. Long affiliated with Harvard, first as a student and since the early '80s as a professor, in early 2002 Sachs was named director of the Columbia University Earth Institute.

In this interview, Sachs presents a look at global shifts in economic thought and policy since World War II, with a focus on crisis and reform in Bolivia, Poland, and Russia.

The Rich-Poor Divide and the World's Rapid Change of Pace

INTERVIEWER: The demonstrators at Seattle in Washington seem to see the world as a frightening place. What are they afraid of?

JEFFREY SACHS: Globalization has clearly raised lots of different kinds of concerns that the world is not a very fair place right now. There are incredible inequalities of rich and poor, and that's what brought some people out on the streets. Others are more narrowly focused on their own jobs—are they going to lose them in a world of free trade? Still others worry about the very real considerations of the international environment and how that is interacting with this incredible pace of global change.

INTERVIEWER: You were in Seattle yourself. What did you see?

JEFFREY SACHS: I saw the demonstrators ... on the streets. There was no one single issue. This was not organized in the sense of a coherent theme. There were lots of different grievances out on the streets, as well as hooligans. It was really a quite varied and disturbing event. There is substance in some of the complaints, to be sure. You would not see these demonstrations if all were right with the world. So the anxieties that are being expressed reflect to some extent underlying realities. Others are just opportunistically jumping in.

INTERVIEWER: One of the big things that you referred to is the gap between the rich countries and the poor countries. Give us an idea of how extreme that gap is.

JEFFREY SACHS: The world is more unequal than at any time in world history. There's a basic reason for that, which is that 200 years ago everybody was poor. The period of economic growth is a fairly recent period, but it's been a period of extreme differentiation in economic performance. A relatively small part of the world achieved what the economists call a modern economic growth. And they sustained the increase year after year, in income per person. When you accumulate that over two centuries, you get quite a change, maybe a twentyfold increase or more in the standard of living measured in material terms. Other parts of the world, even if they increased a bit, didn't come close to that kind of achievement of the United States and Europe and Japan. Maybe they grew very, very slowly, so the gap widened fantastically between the fast-growing world and the rest of the world.

It happens that the real success stories, those countries that we now call the developed economies, were the high-income economies or, somewhat of a misnomer, the industrialized economies. Those countries represent only about one-sixth of humanity. And five-sixths of humanity is what we call the developing world. It's the vast majority of the world. The gap can be 100 to one in some cases if you simply measure the gross national product per person in the United States versus, say, a country in Africa like Botswana, maybe a gap of $30,000 per person and $300 per person. That's absolutely astounding, to be on the same planet and to have that extreme variation in material well-being.

INTERVIEWER: That's a great moral problem of our age, isn't it?

JEFFREY SACHS: It is an incredible moral problem—how to live together with this vast gap in wealth. It's also an incredible intellectual problem. It's what development economists such as myself spend all our time thinking about. Why is the gap so large? What can be done to help the poorer countries narrow the gap? It's a very tough question.

INTERVIEWER: Another thing that must have brought people out on the street, which I think probably resonates beyond the demonstrators, is the rather frightening rate of change we've seen in the last 10 or 20 years. How radical has the change been in the last 20 years in the advancement and in the whole world of economy?

JEFFREY SACHS: We're living in a time of incredible flux on many dimensions—in the nature of our daily lives and the role of technology, in the rate of economic change, and in the rate of change of the social and political and economic institutions by which our societies are organized. These changes are taking place all over the world. Technology is a major, maybe the fundamental, driving force of these changes. But the political changes, whether they were [the] first cause or caused fundamentally by other things, those political changes have been absolutely astounding. More of the world has had more of a political institution makeover in the last decade than probably any time that we could think of before.

INTERVIEWER: You said political and economic, too?

JEFFREY SACHS: When I'm referring to political I'm thinking about all of the ways that society is organized. Yes, in the struggle for power, but also in the way that material possessions are exchanged, in the way that property is organized. We've had such a revolutionary restructuring of institutions since the late 1980s that we're all still gasping at what's happened and how fast it's happened.

INTERVIEWER: Dan Yergin sums it all up in a sentence by saying it's really the story of the retreat of governments from the marketplace. Is that a fair summing-up?

JEFFREY SACHS: A part of what happened is a capitalist revolution, if you will. And no question, after a great ideological conflict in this century between competing models of society, at the end of the 20th century the market economy—what we call the capital system—definitely had became the only model for the vast majority of the world. There are also other revolutions taking place along with that. A revolution of human rights and political rights is also clearly at play throughout the world where people are saying, "I have my rights to my physical person, to my participation in society." This is another dimension of change as dramatic and closely interacting [as the economic changes]. Of course, all of this is taking place within a context of incredible technological change, where the underlying role of science is so clearly changing all of our lives everyday that nobody can really grasp the full extent of it.

Hyperinflation in Bolivia

INTERVIEWER: You suffer from an extraordinary degree of firsthand observation to a lot of these radical changes, some of which seem to start in out-of-the-way places. Tell me about the story of how you attended a seminar on hyperinflation in Bolivia.

JEFFREY SACHS: Well, I did get to watch a lot of this change from an extraordinary approach often. My first experience was in the mid-1980s as an advisor to a small, landlocked country in South America: Bolivia. I didn't really expect it; as in many things in life it just somehow happened that in early 1985 some former students sent me a note asking whether I would be ready to come to a meeting with a group of visiting Bolivians. That group was coming to Harvard to talk about the extreme economic crisis in the country. I had no particular involvement with the country, but I thought it would be interesting to go join the discussion. This group came to Harvard and, in absolutely the most colorful and fascinating and vivid terms, described the plight of a country which was then under a 24,000 percent per year inflation. This is a phenomenon, of course, and something that one read about in history books and that I had studied as a scholar but I didn't ever dream it would be happening in real life, in a time I was involved as an economist. I was absolutely fascinated and made a few observations. Somebody in the back of the room, after I made one of these interventions, piped up and said, "Well, if you think you know what to do, you come to La Paz." I laughed it off, and they pressed me, and, as these things happen, just a few weeks later there I was in La Paz in the middle of one of history's most hyper [of] inflations, trying to make some sense of it and trying to see if I could give any suggestions of what to do.

INTERVIEWER: How bad were things in Bolivia? Was inflation still heading up?

JEFFREY SACHS: When I got to La Paz in July 1985, the inflation rate over the preceding six months, if it had continued for the year, would have been something around 60,000 percent. And that definitely made it one of the most extreme inflations in all of the world's history. By my calculations at the time it was about the seventh most extreme hyperinflation [in history]. There have been others since then that have topped it, but it was an absolutely extraordinary phenomenon. It was, I think, the first peacetime hyperinflation in history—that is, one that wasn't in the context of a revolution or the end of World War I or the end of World War II. So it was really a case of a society utterly falling to pieces internally but not because it had been through a war. It was an extraordinary and terrifying thing to see, actually. One felt that just on the streets at that time, in July, that anything could happen, that society could descend to civil war. One felt that the movement of troops and the questions [of] whether the elections that had just taken place would be honored, whether a political system could remain intact, whether mass demonstrations would overthrow society or the existing political system and so forth. Obviously it was a society at the edge of the precipice.

INTERVIEWER: Can you bring home to the general audience when we talk 24,000, 60,000 percent inflation, what does that mean to ordinary people's lives? What do they do?

JEFFREY SACHS: When you have an inflation rate of 60,000 percent at an annual rate, or 50 to 100 percent per month, it means any money that you're leaving in your pocket is losing value at such a relentless rate that if by accident you leave it in your wallet for a week or two you've lost a quarter of the value or some such tremendous amount. People are in disarray; enterprises are barely functioning. People, when they are getting paid, which they are with huge stacks of money, are running to the market to try to turn the soon-to-be worthless paper into some physical commodities. Bolivia, of course, was and remains a very poor country, so this was a hyperinflation and chaos that was happening in a society that has few human or social reserves to go off and [was] living at the edge of subsistence even in normal time, and here was hyperinflation where small shocks to the income levels can be absolutely devastating to a family—not being able to feed their children or to see a doctor, or other needs that we would regard as so fundamentally basic not able to be met. You really feel the urgency, and I can tell you, you really wrack your brains to try to figure out anything that might work.

INTERVIEWER: What's the underlying cause of hyperinflation in Bolivia? Is this to do with dependency theory or something like it?

JEFFREY SACHS: A country falls into hyperinflation in the first instance because the government is printing huge amounts of money to pay the bills. You have to ask the question, "Why is the government printing money?" It obviously means the government doesn't have access to normal revenues through taxation. Then you have to ask yourself, "Why is that?"

In the case of Bolivia, part of the problem was that many of the taxes that they might have used to pay the teachers or the doctors was being siphoned off to pay for creditors. This was a country that was bankrupted by foreign borrowing in the past. The revenues that the government was taking in that should have been used to pay for the local population were being sucked off by creditors, leaving the domestic economy and the government utterly destitute. Therefore there had been the need for printing money. It was also the case, and is typically the case, that hyperinflations come from deep disruptions in politics and deep disruptions in the economy for one reason or another. A build-up of foreign debt can be a part of it. A collapse of the main export commodities, which Bolivia was suffering in the second half of 1985, played its role. The basic fact that Bolivia had an economy that really hadn't progressed technologically for 25 years, that was living on a small range of commodities for export and on foreign aid, was a fundamental factor in the story.

Meeting Goni

INTERVIEWER: Who was Goni, and how did you meet him?

JEFFREY SACHS: When I got to Bolivia, I was invited by the presumptive president, the man that had won the plurality in the vote, the man [who] is, in the year 2000, president of Bolivia, President [Hugo] Banzer. It turned out in 1985, though he himself got the plurality, he did not get the majority. I ended up working for his economic team, only to find on the last day that in the end he wasn't going to be president anyway. I left behind a document that did get to the man [who] became president, Victor Páz, who came to the presidency in his mid-70s for his fourth term as president. A quite remarkable man, I was to learn firsthand. He had a chief economic advisor at the time, Gonzálo [Sanchez] de Lozada, another absolutely remarkable man, a world-class figure, who later on himself became president of Bolivia. At the time I didn't know whether I would be working at all in Bolivia or not. I met a man at a cocktail party one of the evenings at work. I didn't know him at all. I introduced myself. He said, "What are you doing?" I said, "I'm writing an economic plan for the next government," not realizing, of course, who I was talking to, and who I would be working with in the future. He said, "That's very interesting; what do you have in mind?" And I described a few elements, basically how to stop hyperinflation. And he said: "No, no, you have to go much beyond that. You don't understand, we need so much more, and you're just going on the surface. Yes, it's one thing to stop hyperinflation, but this country needs a complete overhaul. We've got to get out of the mess that we're in." I wasn't sure whether he was provoking me, whether he was kidding, whether he was sober, or whether he knew what he was doing.

It turned out in the end that this was Goni, Gonzálo de Lozada, a genius in my opinion, a very brilliant political figure and a man who understood, better than anybody in Bolivia at the time, how much would be needed to turn Bolivia on a stabilizing democratic and economic reform course. And he really did have in mind exactly what he told me that night, not just stopping hyperinflation but trying to get to the root causes. I had the great honor to work with him over the next four years and try to implement this rather ambitious and remarkable vision that a poor country struggling for survival could make a simultaneous revolution of democracy and human rights on the one side, and economic reform on the other, and he pulled it off.

INTERVIEWER: Give us a sense of his personality. What he was like to meet? He was a big influence on you, wasn't he?

JEFFREY SACHS: Goni is extraordinary. The fact that a president goes by Goni rather than Señor Sanchez de Lozada already tells you that this is a person with an incredible touch and admired in the country. He's got a hilarious sense of humor. He's also got a very fine analytical mind. And he's got a philosophical turn of mind, also. It doesn't mean that everything always happens quite as fast as one would like, because some of these philosophical debates meant weeks and weeks around his kitchen table, arguing the philosophical merits of one approach after another. And we sat for months at a time talking about one reform or another until it drove us all crazy sometimes. But the combination of an extraordinarily good human, an extraordinary analytical capacity, and what I found, and was very much inspired by, his extraordinary love for his country, all combined to make him a great leader.

I remember—and it really touched me—a moment of very sharp strike in the country. It was a major strike of the university, something that one is familiar with in a country like Bolivia, and quite a tough attack on the government in a very tense period. I asked Goni: "Are you going to close the university? What are you going to do? And how do you react?" And he said: "You know, these are our kids, these are our kids. We have to find a way to talk to them." And it was beautiful. It was so measured, clearly so honest and direct, but with none of the harsh side. He always used to have that aspect of a love of his country and a knowledge and awareness of decency. That, combined with the cleverness that he had and the foreknowledge of how much change Bolivia really needed to get on track, all of that is what for me made him a great teacher, but also a great leader for Bolivia.

The Meaning of "Shock Therapy"

INTERVIEWER: The plan that Goni was urging on you, which I think you helped devise at least, came to be known as "shock therapy." Why the phrase? What does it really mean?

JEFFREY SACHS: I never picked the phrase "shock therapy," and I have to say don't much like it. It was something that was overlaid by journalism and public discussion. It sounds a lot more painful in a way than what it is. Goni had in mind another economic reformer, who we discussed quite a bit, and that was Ludwig Erhard, who, after World War II, as the designer of Germany's postwar economic miracle, had started out with very bold moves in 1947, '48 to get Germany on a market-economy track, and to end monetary chaos in the country, and had acted quite decisively. In fact, in one weekend he had just wiped away the price controls, a very dramatic weekend in Germany. It had ended years of intense shortages by ending these price controls. So history in the 20th century had shown many cases where, when you're in monetary and economic crisis, a decisive stroke can at least end the monetary chaos. I had actually gone to Bolivia with that message as well, with a set of pictures from a well-known economics paper that had demonstrated that many of the hyperinflations, the famous high inflations of the 20th century, had actually been ended decisively even in a day. Goni definitely liked that, but he wanted to go further, because it wasn't just ending the hyperinflation, but trying to reconnect Bolivia to the world economy with normal economic institutions was also part of his goal.

Bolivia was a country that had gone through a revolution in 1952. It had gone through a period of socialist romanticism; it had gone through a period of massive state ownership; and it had gone through a period of narco-dictatorship. It had gone through several periods of military rule. Its political and economic institutions were a morass of corruption, inefficiency, non-transparency, and he wanted to pull those out root and branch. Now it's not so easy, of course, and an economic program is not a single declaration; it's not a single event. Even if you can end a hyperinflation in a day, which sometimes you literally can do, to change society in a way that promotes economic prosperity, that's the work of a generation. It's at least the work of several years of policy reform, of politics, of legislative change, of international negotiation. It's not something that one decrees and one wills in a moment.

When I have used the term "shock therapy," I've used it in two different senses, and sometimes these have been misunderstood, or there's been a lot of confusion. One sense is a real sense of shock therapy, and that is when you are in monetary chaos, whether it's a hyperinflation or extreme shortage of goods because of massive price controls, in a decisive action, one can end the monetary chaos and get money working again to be able to buy goods, to bring goods to the market, to be able to operate a supply and demand, and normal market exchange. This can happen very quickly, and it seems miraculous when you've gone from mass shortage to goods in the shops again. That miracle was one weekend in Germany in 1947, and it occurred many times since, and I've watched it. There's another sense in which either of us use the term of shock therapy, but it's not the way that it's often understood. By that I've meant not something that you do in a day or a week, but something that in the course of a few years of hard work and a lot of politics and a lot of political and institutional change.

An economy can be reoriented from a dead end, a dead end of socialism or a dead end of mass corruption or a dead end of central planning, to a normal market economy. Many people have interpreted me to believe that this can happen overnight, and that is where the misunderstanding comes from. In the Bolivian context, while the hyperinflation was ended immediately, the hard work of helping to remake the Bolivian economy, that's been 15 years of continuous effort since then, and continuing institutional change, and continuing institutional innovation.

INTERVIEWER: So when Goni implemented his plan, it worked?

JEFFREY SACHS: The government of Victor Páz came into office on August 6, 1985, and on August 29, 1985, they issued Supreme Decree 21060, which is a large document which became quite famous in the history of the country. It was a list of dozens and dozens of major policy changes, a few of which could be quickly implemented and many of which would take years to bring to reality. What did work quickly was the end of the hyperinflation.... There were some close calls, and it was a bit harrowing for the first several months. But Bolivia did end its hyperinflation, and by early 1986 it was really gone, and Bolivia's been one of the lowest inflation countries in all of the Americas for the past 14 years as a result of those actions.

Goni went on to many, many other kinds of reforms, and I worked closely with him on those, from tax reform to trade policy reform, to institutional reform of the government and the judiciary and the state sector, to renegotiating foreign debts, to introducing social policies, to introducing emergency social assistance, and so forth. There was a four-year period of quite feverish institutional innovation and institutional change. Was it successful? No question, Bolivia made a fundamental turn towards stable, constitutional rule at that point. It made a fundamental turn toward macroeconomic stability. And it made a fundamental turn towards economic growth, all of which one can date quite clearly to the period. But Bolivia remains a very poor country. It is a landlocked [country], an economy where half the country is at 13,000 feet above sea level, high up in the Andes mountains. The other large part is in the tropical lowlands and with many of the problems of tropical countries worldwide. It's a very difficult place and it remains a very poor place, but one vastly better positioned and more stable and more prosperous than it was 15 years ago.

INTERVIEWER: Briefly, if you can, what were the key points of the reform package in Bolivia?

JEFFREY SACHS: The idea of the reform in Bolivia was first, to stop the hyperinflation; second, to make the economy open for international trade; and third, to change the role of government so that government would help to regulate and create rules of the game, but not to control, to manage, to micromanage the economy. In stopping the hyperinflation, the key is to stop printing money. You have to find real revenues as a way to stop printing money. So the first step is what's called fiscal reform, changing the budgetary practices. In Bolivia, the main thing was actually raising the oil price sharply, so that the government, when it sells the oil, which it owned, was earning enough money to pay the teachers. It was very, very simple. Sort of paradoxical for a non-economist that you raise the price to end inflation, but by raising the price of oil to a realistic level, that closed the budget deficit enough that the inflation stopped.

But the hard work is beyond that. That's a good start. The hard work was then creating a market economy, getting the government out of places where it didn't belong: allowing private business to operate; allowing international trade to operate; creating mechanisms for real social policies so that the health and education needs could be addressed; creating a legal setting which provides the rules and, again, opens the economy to international trade and getting private investment going and creating a real social policy, where children are getting education.... That was the real work of the subsequent reform.

Chile: Front-Runner of Reforms?

INTERVIEWER: Isn't it true that Chile was the real front-runner of these kinds of reforms, that the whole thing was tried there about 10 years earlier?

JEFFREY SACHS: Chile was probably the country in Latin America that first started rather radical market reforms after a long period of heavy state interventionism. Chile, though, operated these reforms under a quite brutal military dictatorship. Bolivia was really the first, in my view, combination of democratic reform combined with economic institutional change.

And Bolivia much more than Chile showed that you could combine political liberalization and democracy with economic liberalization. That's an extremely important lesson, to have both of those working in parallel and each one reinforcing the other.

INTERVIEWER: Would it be fair to say that Pinochet's methods, or his regime's methods, discredited those reforms to begin with?

JEFFREY SACHS: Chile's reforms as of 1985 were still a question mark, even in terms of their pure economic value. When Pinochet came in, in 1973, and instituted a first round of reforms, there was a quite rapid economic growth up until the end of the '70s. But in 1981 Chile had an extremely deep crisis linked to a debt crisis and a collapse of the world copper prices. And naturally [this brought] the economy into a huge downturn. So by 1985 Chile was just starting to recover in the context of those market reforms. Given the combination of Chile's own crisis and the brutality of the Pinochet regime, Chile was not taken as a role model by the rest of Latin America at that point. I wouldn't say it was a major inspiration directly at all for the Bolivian reforms or for other reforms in Latin America that followed. By the end of the 1980s, the Chilean reforms were clearly working. And when Chile democratized on top of that, Chile then became a clear role model in a sense that you could have successful market reform and democracy, but only after this process had already started in some of the other countries.

INTERVIEWER: You said, allegedly, [something along the lines of] "Does Chicago always have to be replaced by the Harvard boys?"

JEFFREY SACHS: Chile went through a very pure market phase where it believed everything would work very smoothly, and under the rather strict discipline of a rather harsh regime. And the Chicago Boys, as it were, got that started in the early 1990s when the economic reforms were continued under democratic governments. The Harvard boys came in and showed you can run this economy democratically and to pay more attention also to the social demands in education, health, problems of the poor. I once went down to a meeting of the economic sub-Cabinet, and there were at the time at least seven, maybe nine Harvard Ph.D.s in the economics team. At the time it was quite frightening, actually. They asked for advice, but there was no advice to give. It was the most astounding group of economic talents you would find in any government.

INTERVIEWER: I think Goni said, "The kind of revolution taking place here will have to take place everywhere in Latin America." I guess he realized, and maybe you did at the time, that Bolivia was a turning point. It's a tiny country, an unimportant, insignificant country, but what happened there was significant. Could you maybe just talk to that point?

JEFFREY SACHS: Yes. I was a macroeconomist and a monetary economist at the time, and have seen more and have been able to broaden my understanding considerably as a result of this experience. I didn't really know, at the beginning of my own involvement in Bolivia, how much institutional change and how much historical turn there needed to be. What Goni really did sense early on was that not only did Bolivia need, as he used to say, to reinvent itself (and that was the phrase that he used with the public), but he knew that Latin America more generally was going to have to do the same thing. And he said to me, in one moment of reflection in late 1985, as we were struggling late into the night with a problem, he said, "You know, this is extraordinarily hard, but what's happening here, this is going to have to happen all through Latin America." And I found that a bit of wisdom that not only stuck with me but that I watched it unfold, one country after another, and then ended up being an economic advisor in a number of those other countries as well. That really was the first time that I had gotten the sense that we were so deeply in an institutional revolution. Of course at first I saw it in Bolivia, and then I came to understand better what Goni had understood that this was going to happen in the Americas, but then we saw it was something that was going to happen throughout the world.

Poland's Social, Political, and Economic Crisis

INTERVIEWER: Some political columnists, one in particular anyway, were taking a close interest in what was going on in Latin America. What was going on in their heads, and why they were so interested in Latin America?

JEFFREY SACHS: Poland was another country in crisis. If Poland had been in Latin America, it would have started this kind of change in the early 1980s. And, indeed, in Poland in 1979 and '81, [the] economic system collapsed, and Poland entered a horrendous financial crisis. Great social unrest occurred, and great social change started to occur. And the Solidarity movement, which became the major force of Poland's revolution and probably the leading force of the end of communism in Eastern Europe, emerged. Now, if this had not been under the shadow of the Soviet Union, society in Poland would have begun dramatic change in the early 1980s. But of course what happened was that the rise of Solidarity was followed quickly by military crackdown under the watchful eye and pressure and urging of the Soviet big brother.

Poland for 10 years, basically during the period of the 1980s, was like a pressure cooker. It was a society that desperately needed change. It was an economic structure that had utterly collapsed. It was a country that would have spun into chaos were it not for this incredibly oppressive force from the outside. Nobody knew, of course, that even in Poland the kinds of events that had been seen in Latin America in the mid- to late 1980s would even have a chance of unfolding—a turn towards democracy and market economy. I never would have dreamt it. When I was approached in January 1989 by a Polish government official who had watched the Bolivian reforms and then had seen work I had done in Argentina and Brazil, and asked if he could come to Cambridge to discuss Poland's situation. I thought it would be interesting, but I didn't think it was going to lead, practically, anyplace. We had a quite fascinating discussion about Poland's financial bankruptcy, what seemed to be a tendency towards utter economic collapse, and so forth. And he finally asked me, would I go to Poland and help? And I thought for a moment, how I could best put it? And I finally told him very straightforwardly that I have a lot of concern with what he told me, but I could not work for a communist regime, especially one that had Lech Walesa under arrest and where the Solidarity movement was illegal and repressed. But I left [the door open]. I said: "Look, I'm very interested in Poland. If Solidarity is legalized someday, I would be happy to travel to Poland if I could meet not only the government, but also the Solidarity leadership. I think that there are issues that would be worth both sides hearing, and I would be very happy to be part of a constructive process if I could, helping some reconciliation and change. But only if I could meet with Solidarity." He gulped and said he understood, and maybe someday.

He left the office—this was the end of January 1989—and it wasn't four weeks later when he called me up and to my astonishment said: "Well, we're going to legalize Solidarity. Now will you come to Poland?" I don't think they were doing it for me! But it was an incredible coincidence, of course, in timing, and I jumped at the chance and arrived in Poland on April 5, 1989, which was the day of the signing of the "Round Table" agreement between the regime and Solidarity. And that was thr "Round Table" agreement which legalized Solidarity and gave me the opportunity to start to discuss economic reform issues with not only the government but also with those who would very soon be the government.

INTERVIEWER: There's this incredibly dramatic story that you and David Lipton [President Clinton's undersecretary for the Treasury on international affairs] were asked to come up with a plan. You said yes, you'll go back and work on it, and they said no, we need it a bit sooner than that. Is this true?

JEFFREY SACHS: I started going to Poland in April, and then I followed it up quickly with a trip in May. I was immediately introduced to the remarkable intellectual leadership of the Solidarity movement. These are legends; these are men of unbelievable stature, courage, conviction, and knowledge. Bronislaw Geremek, who went on to become foreign minister, Jacek Kuron, who became minister of labor and other positions in the Solidarity government. Adam Michnik, one of the great intellectuals of our age, went on to become editor-in-chief of first the Solidarity newspaper and then the independent most successful newspaper in Poland, <i>Gazeta Wyborcza [Electoral Gazette].</i> I systematically met with each of them, and had a long discussion about economics and market economics and what could be done. And I urged them to try to do what they could to get political power and to believe that the economy could change. They were quite afraid—"What if we come to power? It's hopeless, isn't it? Aren't we just going to be washed away politically? Isn't this going to be the end of Solidarity, the utter discrediting, so that the Communists come back to power?" And my basic message to them was that there was a way out, that if there was a democratic government in Poland, there would be a way out. They said, "What about the foreign debt?" I said, "Forget the foreign debt—it's going to be canceled." They said, "Are you crazy?" I said, "Well, no, but there will be ways to negotiate this." They said, "What about the utter collapse of goods in the marketplace?" I said, "Markets can work if you liberalize." ... And I believed, and believe now, and see it, that foreign investment from Europe and domestic investment could lead [to] a rejuvenation of industry. We had hours and hours of discussion. It was probably the most passionate political involvement I've experienced in my life because it was really just at the edge of the great transformation to democracy throughout the whole region. And here were the leaders pondering what the fundamental forces were, what the real opportunities were, what the future of their country and the region might be. I had one meeting with Minister Geremek, then an intellectual at the time of Solidarity, who got up at the end of the meeting and said, "I feel very terrible"—this was [after] about four or five hours of discussion—he said, "I feel terrible, because I think you might be right." And by that he meant that maybe Solidarity was going to have to assume this burden of responsibility for this terrible [moribund] economy that that the Communists had left behind.

INTERVIEWER: And the fear in a nutshell was that the economy was such a mess that Solidarity would fail in government and the hope of democracy would be destroyed?

JEFFREY SACHS: I think it's hard to appreciate how utterly distraught and destroyed Polish society was in the spring of 1989. Now, people look back and so causally say, well, sure, it was going to work, and everybody knew accidentally but they knew why. But the Poles themselves feel that they were descending into civil war, that they were descending into starvation, that they were descending into chaos. And there was reason to believe that, perhaps. The shops were utterly empty for miles. I would see a woman just standing on the street sobbing. And I approached her with my Polish friend and she'd say, "There's no milk in this city; I can't find any milk for my child—what am I going to do?" The desperation of the daily life was extreme. And here was Solidarity, who had no political power except the backing of the people. But still this was the communist era. Nobody believed that there could be truly a democratic government. They were terrified that they would be handed this horrible economic responsibility and then be devastated by it quickly, and that this whole great political movement would be quickly undermined by the utter devastation that the government was going to face. They had very tricky choices to make, and what they really wanted some thinking about was, is there a way out? Is there a way out that is politically and socially manageable? And are we the ones that can possibly do it?

INTERVIEWER: Tell me the story about how you and your colleagues were given basically an overnight deadline to work out an economic plan for Poland.

JEFFREY SACHS: We had these discussions with all of the Solidarity leadership, and one night David Lipton and I went to the small apartment flat of Jacek Kuron, a marvelous man, one of the most wonderful people I've ever met, a real hero of mine. We were in his cramped apartment. He didn't really speak English, but he understood most [of it]. Chain-smoking like crazy. And we talked for a few hours, where I was trying to explain, at least [in] my view, how you get out of this mess that the communist system had left behind. Of course no one had tried it yet; this was all hypothetical. And the idea was to sketch it, and every couple of minutes that I was speaking, he would pound on the table, "Pah, pah, pah, yes, yes, yes, I understand." And we'd gone on—"Pah, pah"—and it was really exciting. We went on for a few hours like this. I was exhausted, and the room was filled with smoke, and he said, "Okay, clear." Our friend was translating. He said, "Clear—write up the plan." And we got up. I said: "Well, this will be a great honor. Dr. Lipton and I are leaving tomorrow evening or the next day. and we'll send you something just as soon as we can." "No. Tomorrow morning I need the plan." And I laughed, and he said, "I'm absolutely serious; I need this written down now." And we looked at each other and our friend, who was the business manager of the <i>Gazeta Wyborcza,</i> which was the embryonic newspaper at the time; it had just been opened, and it was working out of a kindergarten school classroom with the offices on slabs of wood over sinks so you could put down a computer terminal. He said, "We'll go back to the office and we'll write something." And Lipton and I went back, and we wrote up a plan that night, from about 10:00 in the evening until I don't know if it was 3:00 or 4:00 in the morning.[We] delivered it the next morning to Kuron, to Geremek, to Michnik. And they looked at it, distributed to the Solidarity members of the Parliament, the so-called OKP, the Solidarity club of the Parliament, and we were told, "You can get on an airplane to go to Gdansk. It is time for you to go see Mr. Walesa." And that was the next step.

After Poland's Reform: Fear of the Unknown

INTERVIEWER: Did you talk to the workers in Gdansk or just Walesa?

JEFFREY SACHS: On the trip to Gdansk, that was just visiting with Walesa. But I was asked several times to hold some community discussions. I had to go to some factories to meet with workers to try to explain at least what my vision of this might be.

INTERVIEWER: Wasn't it the true blue-collar workers that had a hard ride from those reforms? [Didn't they] suffer quite badly themselves?

JEFFREY SACHS: I think there's no doubt that the heavy industrial sector, which was the built-up and technologically moribund sector at the core of the military industrial complex of Eastern Europe and the Soviet Union, was probably in the first line of the market wave, that much of this industry had what we call "negative value added." It was not only not producing things of value. Simply the energy-imported market costs, if you had to pay for the oil at market prices which Poland suddenly had to do in 1989, were more than the value of the output themselves, so it was value-destroying and not value-increasing. And a lot of people lost their jobs. There's not doubt.

INTERVIEWER: Didn't the pope raise this with you when you went to see him?

JEFFREY SACHS: The pope in 1991 wanted to know, is this working, is this really on track, what's going on, what's your view of this? And I tried to reassure him that, to the best of my technical knowledge and historical experience, and what I was seeing on the ground, Poland was turning the corner decisively, and that it was becoming a normal democratic market society with good prospects for economic growth. In 1991, no one could be sure. Fortunately in 1992 and every year since 1992 Poland has been among the fastest growing countries in the world. Now there's no doubt about it, but in the early days there was lots of doubts.

INTERVIEWER: At the time that Poland put these economic reforms into effect, [there was] sort of [a] big bang... was it 1990?

JEFFREY SACHS: January 1, 1990.

INTERVIEWER: Can you give us a sense of what's at stake? After all, it's a first... it was the background, the Cold War, the end of communism. If communism failed, where could it have all gone?

JEFFREY SACHS: The end of 1989 was a terrifying and unpredictable period. A Solidarity-led government had come in, but even then, two-thirds of the Parliament, because of the way the elections were only partially free, in the summer of 1989 two-thirds of the Parliament was still in the hands of the Communists. Who knew what was going to happen to Gorbachev? Who knew whether any of this reform would continue? Everybody knew very well about the Prague Spring and how it had been crushed. Everyone knew about the end of Solidarity in the early 1980s with the imposition of martial law. It was terrifying. And 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. So was it unpredictable? Yes. Was it frightening? Yes. Was it uncertain? Yes. Why should one have any confidence? The things that Poland had going for it, first and foremost, was that Solidarity had a reservoir of trust of the public, which was absolutely phenomenal and critical. Second, Poland had in its long and often tragic history one overriding knowledge, which is that it wanted to survive as a nation and be part of the mainstream of Europe, and that it was willing to endure great sacrifice to do that. And so those were the two things going in. And if the Soviet Union would leave Poland alone, I did believe that market economics would work in the end, and even not just in the end, but sooner than most people believed.

But I can tell you that there was phenomenal skepticism, phenomenal criticism, phenomenal view that this kind of rapid reform was going to lead Poland into utter destruction and a lot of attack. So it wasn't an easy period.

INTERVIEWER: You were still attacked when your book about Poland came out. I think [you were criticized], in effect, for going too fast. [Your critics] said gradual [change] might have worked better. What is your answer to that?

JEFFREY SACHS: At this point, in the year of 2000, Poland has just had an extraordinarily successful decade of change. It's the country with the highest income standards compared to where it was 10 years ago. It's a member of NATO; it's a leading candidate for quick admission to the European Union. It's a very vibrant democracy. There's a lot of foreign investments and a lot of exports. I'm thrilled and believe that the Poles have acquitted themselves beautifully in the pages of history.

INTERVIEWER: ... Was [the Polish reform] very different from [the reform in] Bolivia?

JEFFREY SACHS: The main goal of Poland, fundamentally, was to have Poland become, as it should be, a normal part of the European economy. Like the old discussion of how do you make a sculpture of an elephant? You just cut away everything that doesn't look like an elephant off the block. [For] the question of how do you make a market economy of Poland, you cut away everything that doesn't look like a European economy.

Maybe you could say this is facetious, but the basic point was there really was a role model, and there remains a role model: The role model is the Western European economy. Not in every detail, but in the basic structures, so that Poland can comfortably be integrated within the European Union, can be a normal part of the functioning markets of Europe. And this was the basic mode or force of the revolution, what the Poles called in their slogan "the return to Europe."

It was the general guiding force of trade liberalization, macroeconomic stabilization, privatization, which were the basic dimensions of the change. And it's even, at the level of extreme detail, the direction that's given for thousands and thousands of specific regulatory changes in adopting what in Europe is called the *acquis communautaire,* that body of law of Brussels, of the European Union, which is what all member states take on as a common undertaking. Since Poland wants to be part of Europe and literally wants to be part of the European Union, it means taking on that *acquis communautaire*.

The "Teetering Empire": Russia's Economic Free Fall

INTERVIEWER: Is it possible to sum up the kind of economic mess that Russia was in 1989, 1990?

JEFFREY SACHS: Russia was in a mess of every kind. It was at a dead end as a society, as an economic model, as a political model. It was a teetering empire. It was an economy that, basically, at the core, was built for military purposes, could not satisfy human needs, society's needs, consumer needs. It lived off of cheap energy, which was running out. It lived off of energy exports, which were plummeting. It lived off of heavy foreign borrowing during the Gorbachev era, taking on tens of billions of dollars of foreign debt, which had reached the limit and now creditors were wanting their money back, not wanting to give more. By 1990 this was a society which, while on the surface it looked stable, was more like one of those cartoon characters that's run off the cliff, is stationary for the moment, doesn't realize it's about to reach a free fall, and it did go into that free fall.

Gorbachev in 1991 was a desperate man with an economy about to default on its external debts, mass shortages internally, a socialist-repressed hyperinflation. What does that mean? On the one hand, the government's printing huge amounts of empty bills to pay its bills, but, on the other hand, maintaining price controls in the shops. So instead of the prices rising in an open way, you've got the prices rising in the black markets and you've got the shops absolutely empty. One could go for literally miles in Moscow in 1991 with utterly 100 percent empty shops. And if you wanted something you had to go to a black market. You had to make secret deals.

The whole distribution system, even of that rickety central planning, had collapsed by 1991. It was basically fair to say that the Soviet Union ended the way it did in a Chapter 11, what we would say in the United States, basically by going bankrupt more than anything else, and it imploded financially in the end. How ironic—everyone thought it would be the great Armageddon. Thank God it wasn't; we wouldn't be here to talk about it. But it imploded financially in the end, an economic system that had utterly gone bankrupt.

INTERVIEWER: Yet you wonder whether Gorbachev really understood what was going on, because he completely shrugged from even contemplating Yavlinsky's suggested changes, didn't he?

JEFFREY SACHS: Gorbachev probably didn't understand a lot of it, but I'm not sure that any of us understood the full enormity of the problems. There were all sorts of false analogies. The main false analogy, the one favored by the KGB and the one favored by still lots of scholars today because they just don't get it to this moment, was the gradual reform of China. They don't understand that Russia was an 80 percent urbanized, heavy industrialized economy, living off of oil, where everybody was in the state sector, whereas China was a peasant economy with 80 percent of the population in rural areas, basically living in subsistence peasant farms, and not in the state sector the same way. The KGB said, "Why don't we do what China's doing, keep political control but open up on the margin, and we'll grow on the margin, the cooperatives and so forth, and we'll maintain our political power, we'll maintain the state enterprises, but we'll grow." That's what China did. But China had a small state sector and a massive non-state peasant sector. By freeing up that non-state sector, it was able to achieve a lot of economic growth. In Russia, the non-state sector was 1 percent, it was nothing, so yes, you could get a few restaurants going, but you couldn't get to the core of the problem without addressing the industrial core of the system. So they had no easy way out. They had no gradual track like China, or what China called its two-track strategy of freeing up the non-state sector but continuing to subsidize the state sector. They went on a false analogy with China that ended up in bankruptcy. They ended up having to do much more dramatic things, but ironically, even today, many people say, "Why didn't they do the China approach?" without understanding that that, of course, is what Gorbachev tried to do for four years. That's what the KGB wanted more than anything else, but it couldn't work in the Soviet circumstances.

INTERVIEWER: So in the end, Stalin was the sort of destroyer of his own system.

JEFFREY SACHS: Of course. There's no question about it. It was a society that for 75 years had been geared to the military industrialization, industrialization for war footing. It had destroyed every normal vestige of society for normal human life and for civilian life and it ended up collapsing.

Russia's Difficult Reform

INTERVIEWER: What was going on in Poland did not escape the attention of Moscow. How soon did you know that Moscow was [not only keeping] a close eye [on Poland] politically, but actually beginning to think that they could learn something?

JEFFREY SACHS: When I was going to Poland pretty frequently at the end of 1989 and beginning of 1990, I received a couple of invitations to go to Moscow. I started meeting with

Moscow economic intellectuals, and from there with some of the policymakers and some of Gorbachev's advisors... Of course, they started to watch the events in Poland, had been watching them, in fact, from the very start, as closely as one would imagine, but in ways that I didn't know. For example, Grigory Yavlinsky, who became a key economic advisor to Gorbachev and to Yeltsin when they were working together in 1991, was in Poland at the very start of the market reform. It turns out, though I didn't know at the time, he sent back to Gorbachev a very positive message, one that the Soviet embassy in Warsaw would not transmit because it was too positive and the hard-line ambassador was against sending it. But what it did report was that goods had come back into the shops quickly in Poland within a matter of a few weeks, and this is quite [a] remarkable phenomenon if you live in a shortage society. So he told Gorbachev that. Well, I started to be approached by the Soviet leadership to at least discuss with them market reforms. I ended up giving a series of what for me were [in] rather extraordinary circumstances, lectures to senior officials at the state planning agency... And there we were, probably 30 senior [officials] across the table all with their books open and I was giving them lectures about market economy from A to Z. And they were taking notes on everything, trying to figure out how to save themselves. So I had those contacts and I started an informal discussion group with some young reform-minded economists in 1990, which extended into early 1991.

Around that time I met Grigory Yavlinsky, who had prepared what was the first 400-day plan, and then the 500-day plan for Gorbachev, a plan of radical economic reform. I started to cooperate with him in the spring of 1991, after he had written those plans [that were] heavily influenced by the Polish experience, to try to put together a combination of radical reform, democratization, and economic assistance from the West. We had a project at Harvard with a colleague of mine, Graham Allison, which we called "the grand bargain," which was the notion that the Soviet Union might adopt, when it was still the Soviet Union, some very dramatic market reforms and democracy, and the West would provide large-scale assistance. I always believed in that combination. It's been my basic belief in every reform experience that I've been involved in that when countries are in disaster or at the edge of the cliff, or already falling over, that you need both dramatic reforms within the countries and dramatic help from the outside. The reforms are never by themselves sufficient. Outside help by itself without dramatic reform is useless. It's the combination that does the job. So in the spring and summer of 1991 I worked on promoting this combination. We failed. The August coup came despite events, and of course by the fall Yeltsin was in the ascendancy [and] the Soviet Union had just weeks to survive, which was fine.

INTERVIEWER: [So ultimately] you end up working with [Yegor] Gaidar. What's the job? What are you doing? What are you setting out to achieve in this mess, this chaos?

JEFFREY SACHS: I came to Russia as an advisor in November 1991 informally, where Gaidar's team was trying to figure out what to do, and then formally as an economic advisor to the Russian government in December 1991 at the invitation of President Yeltsin. I lasted in that precisely two years and a month, resigning in January 1994.

I imagined at the time that I was going to do what I had done in Poland and in a way in Bolivia and other countries, which was to work very closely with the head of the economic team in strategizing about the economic reforms, in trying to promote a fruitful, beneficial relationship between Russia and the outside world, in trying to figure out how to get Russia's debt treated responsibly by international creditors, trying to get some substantial international help for Russia, combined with massive reform. So I had the Poland experience in mind. Russia turned out to be something quite different. Both in scale, in the magnitude of the problems, or one could say the enormity of the problems, in the extent of ferocity of political struggle, it was just something that I had never seen before.

And also to the extent to which society itself had been utterly destroyed by the communist era, it was also something that I had never seen before. Poland was still an integral society. The Roman Catholic Church was strong and absolutely present in people's lives. [The] Solidarity movement was a real social phenomenon. Peasant organizations were real social phenomena. There was what we would call civil society. It existed. In Russia there was no civil society. The Orthodox Church itself had been utterly subordinated by the KGB, utterly infiltrated by the KGB for decades. It provided no more backing. There were no independent professional organizations of any sort. There were no independent trade unions of any sort. Society was not organized to protect its interests. Basically it was a battleground of ferocious, elite, corrupted policymaking, with society suffering the consequences, but without any of the defenses, any of the organization, any of the institutions from below that could have tamed the situation or helped to steer it in a more fruitful way. So what I experienced in Russia was a lot of pain and discomfort in watching the extent of corruption, the lack of coherence in the reforms, because after Gaidar's first steps in early 1992, he was under remarkable political attack from the first moment. It wasn't seven days after the start of reform that the head of the Parliament called for the resignation of the government, for example. This was open political warfare, in a way completely different from what I had seen in Poland or Bolivia, where there was somehow more organized will for social survival, more will for civil society and more responsibility among the elites.

In short, I provided economic advice. I put in my two cents, as it were, as often as I could, but basically the first two years were highly disorganized, highly conflictual, ending up in a literal battleground in the streets of Moscow between forces of the Parliament and the president shooting each other, after all. This was quite different from orderly economic reform.

INTERVIEWER: That must have seemed a long way away. You sound incredibly pessimistic. Do you feel you achieved anything within those two years?

JEFFREY SACHS: I feel that it was tragic how we in the West, with our power and our wealth, failed to contribute to more satisfactory change in Russia. And of course I feel deeply unhappy about how Russian elites were even more irresponsible in general than I could have imagined, allowing such massive corruption to take place. There were stars in this period, people I admired tremendously. Yegor Gaidar gave it his heart and his extraordinary brains. He's brilliant and he had a vision, and maybe in the end that vision will triumph, although the path there has been so much more painful than it ever had to be.

I believe that the 1990s in Russia was disastrously costly in the bottom line—not that everything's lost; not that Russia can't end up being a normal society. We even have news that the economy is starting to grow rapidly right now. Let's hope that it's real. But even if Russia gets out of the mess, even if democracy survives, even if all of the market reforms take root, and all of that is possible, to be sure, the 1990s was so costly unnecessarily that I'll never be able to look at it and feel that it all ended up well in the end. I think we missed tremendous chances.

INTERVIEWER: We being the West?

JEFFREY SACHS: We being the West, and I should say they also, they being Russians, as I've always believed it takes both sides in any successful transformation.

The West had the resources, the money, the ability to really help moderate what anyone should have understood was going to be an incredibly tumultuous and painful process. We could barely find a penny in this country to help. Maybe we just wanted Russia to go down. I don't know. It's just not even clear strategically how these interests were perceived. We could have done a great deal more. We chose not to do it. We contributed on our side to this painful process. There's no doubt that after Gaidar was thrown out of the prime minstership at the end of 1992, that the level of corruption rose tremendously after most of the reformers left at the end of 1993 and the oil and the gas resources started to be distributed to cronies of the government. The floodgates, in a sense, were open for massive corruption. Very painful, and not so easy to reconstitute in the end.

Russia's Oligarchs: "A Level of Corruption Rare in the World"

INTERVIEWER: When you say massive corruption, can you give the audience an idea of what that means? What in particular do you have in mind?

JEFFREY SACHS: Russia experienced a level of corruption really rare in the world. A lot of societies have corruption. But Russia had three things that were a quite rare combination. First, it had no civil society, [no] organized opposition to government that could tame government, that could discipline government, that could keep it honest. So you had elites that were free to act without the restraining hand of judiciary or the bar association or religious groups or other organized groups.

The second thing you had was an elite that had grown up in such an amoral, and I think one should say immoral, environment under the Soviet system.... Okay, now we're in a private property system; we'll steal it. And it was a more ruthless kind of corruption than I'd seen in most places. Other places, they'd probably also had it, but Russia was at the pretty far end of the process.

The third thing that Russia had was a lot to steal. And this is the rare combination, because there are a lot of corrupt places that don't have that much to steal, but Russia had this extraordinary combination of huge natural resource reserves, and they were in state hands. So you had all of these elements. You had the oil, the gas, the nickel, the chromium, the diamonds, the gold. They were in state hands for the taking, as it were. There weren't the restraining influences of civil society and there wasn't the ethic within government itself that you don't touch that stuff.

So what happened was that in 1994, and even more in 1995 and '96, some of the most valuable natural resource deposits which had been put into these corporate forms were simply given away, in essence, to those people we now call the oligarchs who became billionaires overnight. It's not so easy to become a billionaire overnight, except maybe floating a dot com, which they weren't doing. They had a different way to become a billionaire overnight, and that was to be on the inside circle of the Kremlin and be able to grab one of these resource companies.

INTERVIEWER: What's the way out? Will the powerful rule the roost for the foreseeable future?

JEFFREY SACHS: The way out, if there is a way out, is for Russia to become part of the world economy, operating according to normal, civilized rules of economics and with democratic institutions. We're holding our breath in a sense, so we're waiting to see whether this happens. The jury's still out whether democracy exists, how much so, whether it can be maintained, whether Russia will remain [an environment] where one's claim to corporate equity is really no more than a piece of paper, or whether it becomes a part of the normal economy.

I believed, and I still believe, and I say it with some caution, I still believe in the end that if the world remains peaceful and if Russia remains peaceful, we're more likely than not to see the favorable outcome. I don't believe there's another way that Russia can really run but to be part of the normal world economy, and I think that Russian business, however it first evolved, and whatever it has been in recent years, is going to have to play by the rules of the game of the international community. So I remain cautiously optimistic, and see glimmers of hope. But to believe that Russia's made it yet for sure, I think that's going way too far. To believe that it's all over in defeat, that's absolutely wrong. To believe that it's been an awfully costly way that didn't have to be costly, that I think is indisputable.

Keynes and Friedman: Taking the Best from Both

INTERVIEWER: Speaking about yourself personally, your intellectual history. You described yourself originally as a Liberal Democrat who could barely speak the word "monetarism." What were your own origins intellectually, where were you coming from originally, and what changed your mind?

JEFFREY SACHS: I grew up intellectually at Harvard. Harvard did have quite a varied faculty, and I learned from different points of view, but in the macroeconomic tradition there was a great debate between the Keynesians and the monetarists. Keynes, of course, was the leader of the Keynesians and Milton Friedman the leader of the monetarists, and I was told initially don't trust Milton Friedman and don't listen to anything he says.

Of course, as I began the practical work of my life of the last 20 years, and the work specifically of economic advising, you learn a lot of things on specific monetary questions. You learn first Milton Friedman had so much right, it's fabulous.

You also learned that Keynes had the same views often, and that the whole debate got so simplified as it's presented in formal class work that everybody gets confused about who said what and when. That's one thing. Second, I think Milton Friedman has gotten, and deserves, fabulous credit for continuing to hammer home the incredible power and efficacy of markets in places where they belong, which is most of the places of economic exchange. I am not myself a free-market economist in all its glory, in the sense that I believe in a significant role of government in many areas. But I think it's fair to say that, 25 years ago, the center of gravity in the mainstream economics profession was much more towards government intervention and much more towards the need for government to be in particular sectors and much less towards the self-regulating mechanisms of the market.

And while I am not at either extreme of this debate, my own experiences definitely convince me to surely lean on market institutions whenever you can because they have a great strength, but [to] remember that they can't solve all things, they can't solve problems of poverty by themselves so easily. They can't help those that are in desperate need by themselves necessarily, and also they aren't the full story and the great task of creating innovation, which is both a public and a private activity from education to research and so forth. So yes, the center moved. My own experience also moved in the course of all of this. I was raised as a Keynesian and discovered that Keynes wasn't a Keynesian in the way that it was defined for me. Keynes remains in my view the greatest political economist of this century, not for the reasons that are sometimes taught, but because I think he was the most acute diagnostician of economic life that we have had this century. He could read an economic circumstance and understand with greater depth and subtlety than anyone else in this century has been able to do. He could understand that the Treaty of Versailles would lead to disaster in Europe. He could understand that the Great Depression wasn't going to solve itself. He could understand that the postwar world needed institutions like the IMF and the World Bank. He was a genius in reading the diagnostics of the situation. He was our greatest clinical economist in all of world history. So I continue to admire him tremendously.

But I also admire tremendously Milton Friedman, who after an onslaught of statism, kept his head very, very much straight on, kept looking forward and understanding that things had swung way too far in the other direction and saying that monetary factors didn't matter, or that government could solve lots of problems that it's simply not equipped to do. He helped to restore a balance and gets a lot of credit for that as well, even if one doesn't agree with all the particulars, and I certainly do not.

Yes, in my view, Keynes was the greatest political economist of the 20th century, and perhaps what I would call the greatest clinical economist of all time in being able to read the real situation, the real diagnostics of an economic and political crisis.

INTERVIEWER: You've traveled the world. What has it taught you about what governments can do and what they can't do?

JEFFREY SACHS: I came into economics asking the question, "What makes for a good society?" And that means what makes for good public policy, and also, what's the role of government? And in my more than 25 years in this discipline, I continue to ask the question, so I can't say that I've reached any kind of ultimate conclusions on this.

It's clear that government has a tremendous role to play. A stable government that provides real law, that is self-disciplined and self-limiting according to law, that provides a stable set of monetary and financial institutions so the money really means something, that helps to create an environment of knowledge and innovation in this society both by guaranteeing the access to education, to primary health and so forth—those are things where government has a spectacular record and a continuing important role to play.

20th-Century Economic Thought: "Ideas Matter"

INTERVIEWER: Can you characterize the shift of thinking that's happened in the last 10 to 20 years around the world, and why?

JEFFREY SACHS: There's no doubt that at the end of World War II there was a tremendous loss of faith in many parts of the world in market economy. After all, the capitalist core of the world had fought two brutal civil wars. Europe had been at war twice in the worst devastations in history. In the middle of that period was the Great Depression. How could one come in 1945, at the end of that devastating 30-year period, and say market economics is a wonderful thing?

On the other hand, the planned economy of Lenin and Stalin had defeated fascism; scientific socialism seemed to be in the ascendancy. Keynes taught the inherent instability of capitalism, at least as Keynes was being read in 1945, although he was a lot more clever than the simplistic readings that he got afterwards.

What we had, therefore, was a large part of the world that was often, and in most parts of the developing world coming out of colonial war also, where you had those colonial masters, the capitalist powers which were hardly role models. They had devastated the societies. It was felt they had rapaciously exploited society. Why would we want to be like them, anyway? They're so warlike, [they] exploited them, and so forth. You had a feeling in large parts of the world that we don't want to go that way. We want to go a better way.

So about one-third of the world adopted socialism, sometimes to internal revolution, sometimes to brutal imposition by the Red Army, but it was about one-third of the world by the time you count the former Soviet Union, Central and Eastern Europe, the People's Republic of China, and the scattering of socialist countries in other parts of the world.

A very large part of the world had said, "We don't want capitalism; we don't want Leninist socialism; we want a middle way, a third way." It's ironic the term is still used, actually, because that Third Way that was chosen after World War II was not a very successful way at all. But I would say that populations, maybe 30 to 40 percent of the world, were in Third Way countries.

That meant a lot of state involvement in trying to industrialize, state ownership, closed economies to protect domestic industry. Lots of ideas went into that. Nehru wasn't pushed by social forces; he chose a socialist model for India. He might have chosen something else, but he chose the socialist model because he believed in it—not a Leninist model, but this Third Way approach.

By the 1960s, all of those non-market economies were in trouble. By the 1970s, they were borrowing like crazy if they still [had] access to foreign loans. By the 1980s, they were all broke. And by the middle of the 1980s, depending on the specific political circumstances, they were furiously trying to escape from this deep hole that they had dug themselves into and they were trying to rush as fast as they could to what were obviously and so clearly the successful market-based economies of the world. The tide had surely swung. The thinkers that had kept alive the ideas of markets, that had pushed the theories, did play their role at that moment by helping to give more vividness, codification, specificity to the direction of reform. But it was ultimately the collapse of everything else that had been tried that was probably the most important factor in this massive change of thinking in the world.

INTERVIEWER: You were saying before, and it's terribly interesting, that it's when times are bad that ideas matter.

JEFFREY SACHS: When is real politics the main push, and when do ideas really count? Most of the time in normal periods it's the vested interests, it's the special interests, it's the normal politics that plays it's role. But when things come apart, when societies are in crisis, when new choices have to be made, when the old structures no longer have legitimacy or no longer have the power, that's when ideas can play a tremendous role. Sometimes ideas that are terrible, such as when Lenin stepped into the anarchy of World War I, [into] collapsing Tsarist Russia, and took one of the worst ideas of all of modern history and put it into fruition, but sometimes excellent ideas, when the collapse of communism in Poland allows for the adoption of democracy and market institutions. At those times, ideas can make a tremendous difference.

INTERVIEWER: When you talk about ideas, [when] you talk about your experiences in Poland and Bolivia and so on, tremendous passion comes out of you. Where's that passion come from? What got you into this?

JEFFREY SACHS: The passion is the sense that in life we should try to do something useful, and I think that this has been a period where there was a chance to contribute. I hope that the contributions have been worthwhile. But, definitely, I felt an opportunity and a need in many of these countries to find ways out of extreme pain and crisis, and I do believe that ideas, if well thought through and if they are based on sound thinking and historical experience, can play a role.

INTERVIEWER: Was it about 20 years ago or so you were jogging along on the river with these people from Latin America? Did you have any idea where you'd all end up?

JEFFREY SACHS: Well, of course, when one is cramming in theoretical textbooks with one's friends, it's hard to imagine the twists and turns that life will take. Did I know when I was sitting in macroeconomics in the early and mid-1970s that Domingo Cavallo, an Argentine student and very nice friend, would end up being the person that restructured the Argentine economy and ended decades of hyperinflation? Did I know that the very nice Mexican that was graduating in international economics at the time that I was studying international economics at Harvard and down the road at MIT, Pedro Aspe, would be the person that would play such an important role in turning Mexico towards what we can now clearly see as a very viable and much improved path? Did I know that my colleague Larry Summers or David Lipton or others at the time would be so much a part of all of this story? Of course, none of us knew. But it turned out to be quite an interesting class to be part of.

INTERVIEWER: Did you all jog together?

JEFFREY SACHS: To tell you the truth, I can't remember jogging, not once. We did walk along the river, but I'm clearly not a jogger.