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Jeffrey Sachs's plan to eradicate world poverty.

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On July 9, 1985, a thirty-year-old American economist named Jeffrey Sachs stepped off a plane in La Paz, Bolivia, high in the Andes, where the inflation rate was three thousand per cent. Prices were rising so fast that on the streets of the capital people were frantically trading bags of depreciating pesos for dollars. Sachs, one of the youngest tenured professors in the history of the Harvard economics department, had established himself as an authority on inflation and international finance, and was someone who, in his own words, “thought that I knew just about everything that needed to be known” about his subject.

It was Sachs's self-confidence that had earned him an invitation to Latin America. A few months earlier, during a seminar at Harvard on the Bolivian crisis organized by some Latin-American students, he had interrupted the speaker, strode to the blackboard, and announced, “Here's how it works.” When he finished scribbling equations, a voice at the back of the room said, “Well, if you're so smart, why don't you come down to La Paz to help us?” Sachs laughed, but the speaker, Carlos Iturralde, a Bolivian businessman who later became his country's foreign minister, wasn't joking. Seven weeks after Sachs arrived in La Paz, some of his recommendations were implemented, and three years of hyperinflation came to an immediate end.

Thus began the twenty-year journey through the developing world which Sachs recounts in “The End of Poverty: Economic Possibilities for Our Time” (Penguin Press; \$27.95). From Bolivia, where he acted as an economic adviser for several years, Sachs moved on to Poland and Russia, where he played a controversial role in the transformation from Communism to capitalism, and, most recently, to sub-Saharan Africa. For the past three years, Sachs has been leading the Earth Institute at Columbia University and directing the United Nations Millennium Project, a multinational task force of economists, scientists, and development experts. The Millennium Project recently published a plan to halve global poverty and hunger by 2015—a target that the world community adopted in September, 2000, at the U.N. Millennium Summit. The plan calls on rich countries to double their financial assistance to poor nations, something that Sachs insists is workable, affordable, and in the long-term interest of the developed world. “Ending poverty is the great opportunity of our time,” he writes.

As Sachs points out, more than a billion people currently subsist on less than a dollar a day—the standard threshold for “extreme poverty.” Every year, hundreds of thousands

die of starvation, malnutrition, or diseases like AIDS and malaria; tens of millions of children perish in infancy. In the face of this ongoing catastrophe, this year the American government will extend to poor countries approximately fifteen billion dollars in aid, which is roughly a thirtieth of the Pentagon budget and about an eighth of one per cent of the gross domestic product. (American private giving to the Third World typically comes to another six billion.) Although President Bush agreed to quadruple aid, to an internationally agreed-upon target of 0.7 per cent of the G.D.P., he hasn't matched his rhetoric with extra cash. In 2002, he did set up a Millennium Challenge Account, which was supposed to direct money to developing nations. So far it has approved just a hundred and ten million dollars in grants, or about what it cost to make the movie "The Aviator."

In the absence of a natural disaster, such as the Asian tsunami, or a bloody civil conflict, such as the one in Sudan, the fate of the world's poor rarely attracts attention in this country. So it's greatly to Sachs's credit that he has been a gifted and tireless advocate; indeed, he may be the only economist to have published a book with a foreword by a rock star. ("His voice is louder than any electric guitar, heavier than heavy metal," writes Bono, the lead singer of U2.) But Sachs is also making some grand claims: "We can realistically envision a world without extreme poverty by 2025."

Can we? Poor countries have been receiving at least some foreign aid for thirty or forty years—a total of more than a trillion dollars, in one estimate—and, for the most part, it hasn't done much good. Generations of development experts have seen their plans stymied by the impediments of the real world. Has Jeffrey Sachs, a man who rose to prominence as a proponent of unfettered American-style capitalism in former Communist countries, really figured out a solution?

In the summer of 1989, Sachs was in Warsaw advising the Polish reformers who had won a historic victory in parliamentary elections. At a late-night meeting, he and a colleague, David Lipton, sketched out some ideas for decontrolling prices immediately, stabilizing the currency, cancelling foreign debts, and, eventually, privatizing state-owned enterprises. Jacek Kuron, one of the leaders of the Solidarity movement, told them to write up a plan. Sachs said they would go back to America and fax over some material within a week or two. "What do you mean?" Kuron demanded. "I need this tomorrow morning."

Sachs and Lipton worked through the night, and by dawn had completed a fifteen-page brief with a specific chronology of policy reforms. "It was the first time, I believe, that anyone had written down a comprehensive plan for the transformation of a socialist economy to a market economy," Sachs recounts. "Our proposal was for a dramatic, quick transformation." Some Polish economists advocated less radical changes, arguing that their country had neither the institutions nor the expertise necessary to handle unbridled capitalism, but on January 1, 1990, the government enacted the main elements of the Sachs-Lipton all-nighter as part of a new policy that was widely referred to as "shock therapy," a phrase Sachs now dismisses as a misleading "journalistic concoction." Freed from government control, prices soared, and many people saw their savings wiped out. Unemployment rose sharply, too, especially in the heavy industries that had provided most of Solidarity's support. Although Sachs's Polish critics claimed

that their warnings had been vindicated, he argues that his strategy worked out well over time: “By 2002 Poland was 50 per cent richer in per capita terms than it had been in 1990, and it had logged the most successful growth record of any post-communist country in Eastern Europe or the former Soviet Union.”

If Sachs’s account of his time in Poland sounds a little self-serving, his account of his time in Russia, where he advised the economic reformers who surrounded Boris Yeltsin when he came to power in the fall of 1991, is downright contentious. “Many critics later accused me of peddling a ruthless form of free-market ideology in Russia,” he writes. “That was not the case. My main activity for two years was an unsuccessful attempt to mobilize international assistance to help cushion the inevitable hardships that would accompany Russia’s attempt to overcome the Soviet legacy.”

Perhaps Sachs remembers things differently than others. According to other accounts, he brushed aside warnings that Russia wasn’t ready for an immediate shift to capitalism and pushed for an overnight deregulation of prices, a drastic reduction in government borrowing, a sharp cut in subsidies to consumers and firms, and the selling off of state-owned enterprises, in addition to trying to secure financial assistance from the West. After the reform program was enacted, Russia experienced rampant inflation, a precipitous decline in industrial production, a surge in crime, an unprecedented fall in life expectancy, and the looting of the country’s mineral wealth by well-connected businessmen, some of whom were gangsters. Sachs denies that these calamities had anything to do with the policies he espoused. “Most of the bad things that happened—such as the massive theft of state assets under the rubric of privatization—were directly contrary to the advice that I gave and to the principles of honesty and equity that I hold dear,” he maintains. The responsible parties, in his view, included Viktor Gerashchenko, “whom I tagged at the time as ‘the world’s worst Central Bank governor’ ”; the International Monetary Fund, which failed to provide adequate support for the ruble; and the United States government, which spurned Sachs’s call for a Marshall Plan for Russia.

The fact is that in both Poland and Russia Sachs favored large-scale social engineering over gradual change and institution-building. The disastrous privatization policy is one example. Although most of the privatization took place after Sachs left Russia, at the end of 1994, the original policy framework was put in place in 1992 and 1993, when he was still there. Each Russian was given a voucher worth ten thousand rubles to bid for stocks in newly private companies. Many people didn’t understand what was happening, and they sold their vouchers cheaply to better-informed insiders, who ended up controlling many of the privatized companies. Sachs, though, denies that he made any mistakes, or that the transition to capitalism could have been better managed. “Looking back, would I have advised Russia differently knowing what I know today?” he writes. “To a large extent, the answer is no.”

Sachs returned to Harvard full time in 1994, but he also continued to travel widely as a consultant. For several years, he worked with the World Economic Forum, a pro-globalization group that organizes an annual conference in Davos, Switzerland. He wrote for an annual publication called the *Global Competitiveness Report*, in which he criticized big government and expounded the virtues of open markets. On the latter

point, Sachs has been consistent. Although he now tips his hat to anti-globalization protesters who detest everything Davos stands for, commending them for “ending years of self-congratulation by the rich and powerful,” he also regards them as fundamentally misguided. “By now the anti-globalization movement should see that globalization, more than anything else, has reduced the numbers of extreme poor in India by two hundred million and in China by three hundred million since 1990,” he writes. “Far from being exploited by multinational companies, these countries and many others like them have achieved unprecedented rates of economic growth on the basis of foreign direct investment (FDI) and the export-led growth that followed.”

The facts support Sachs: between 1990 and 2001, G.D.P. per capita rose by 5.5 per cent a year in East Asia and by 3.2 per cent a year in South Asia, and poverty fell sharply in both regions. Despite the claims of some analysts on the left, economic growth really is the best antipoverty strategy. If the rest of the developing world had matched the growth rates of China and India, victory over poverty would be in sight. Unfortunately, in sub-Saharan Africa, between 1990 and 2002, per-capita income didn't rise at all, and the number of people living on less than a dollar a day increased by a third, to more than three hundred and thirty million.

The failure of globalization to enrich the world's poorest continent presents a dilemma for its champions, such as Thomas Friedman, the *Times* Op-Ed columnist. His new book, “The World Is Flat” (Farrar, Straus & Giroux; \$27.50), explains how factors like technology and outsourcing have made the planet even smaller and more competitive than it was in 1999, when he published his first book on globalization, “The Lexus and the Olive Tree.” Still, he recognizes that the three billion people who remain in or near poverty have yet to see the benefits. “If it was just a matter of time, you know, give it twenty or thirty years and the others will be there, then it would be great to declare that the whole world is flat,” Friedman quotes Bill Gates, the chairman of Microsoft, as saying. “But the fact is there is a trap that these 3 billion people are caught in, and they may never get into the virtuous circle of more education, more health, more capitalism, more rule of law, more wealth. . . . I am worried that it could be just half the world that is flat and it stays that way.”

Well, nobody can accuse Friedman of leaving out evidence that contradicts his argument, and he does provide an engaging journalistic guide to the competitive challenges facing the United States. Africa's failure to prosper in an era of globalization represents a more serious challenge to economists. Back in the nineteen-fifties and sixties, many economists were confident that newly independent African countries, such as Ghana, Kenya, and Uganda, would be able to escape poverty if only Western donors filled the “financing gap” between what they could afford and the resources they needed to invest in factories, roads, railways, and other forms of infrastructure. Once these nations developed modern industrial sectors, the thinking went, the rest of their economies would be pulled along. In a 1960 book, “The Stages of Economic Growth,” W. W. Rostow, an economic historian at M.I.T., popularized a version of this argument, saying that if underdeveloped nations doubled investment rates, they would soon “take off” into self-sustained growth. During the Kennedy and Johnson Administrations, in which Rostow served, America's foreign-aid budget reached an all-time high of 0.6 per cent of G.D.P., and during the seventies and eighties significant amounts of aid

continued to flow to poor countries.

Much of that money was invested in grand projects, such as factories, highways, and dams. Kwame Nkrumah, the nationalist leader of Ghana, built the Akosombo Dam and thus created Lake Volta, one of the world's biggest man-made bodies of water. The dam generated electricity for one major aluminum plant, but it didn't lead to much other development, and it had unanticipated side effects: many of the people living next to the lake suffered from waterborne diseases like river blindness. Meanwhile, the Ghanaian government imposed heavy taxes on the country's one internationally competitive industry, cocoa production. After decades of aid and investment, most Ghanaians were no better off than they had been at independence.

Ghana has proved all too representative. As William Easterly, an economist formerly with the World Bank, has observed, many countries that received a significant amount of aid, such as Ghana, Zambia, Chad, and Zimbabwe, had economies that either failed to grow much or actually shrank. Meanwhile, a number of places that received very little foreign assistance, such as Singapore, Hong Kong, and Malaysia, expanded rapidly. Looking at the over-all record, there appears to be no statistical correlation between aid and growth.

Sachs acknowledges past failures only briefly. "I reject the plaintive cries of the doomsayers who say that ending poverty is impossible," he writes. "I have identified the specific investments that are needed; found ways to plan and implement them; shown that they can be affordable; and addressed the counsels of despair who claim that the poor are condemned by their cultures, values, and personal behaviors." Setting aside the solipsism of Sachs's "I"—ten specialist task forces and a sizable secretariat worked on the U.N. anti-poverty plan—his argument deserves to be taken seriously. He points to a recent body of research, originating at the World Bank, which suggests that aid can stimulate economic growth if it is given to countries with decent governments. Perhaps wisely, though, Sachs doesn't rely too heavily on statistical findings, which are almost always ambiguous. (Easterly has recently challenged the World Bank's results; other economists claim to have substantiated them.) Instead of defending past practices, Sachs advocates a new approach—"clinical economics," he calls it—which pays attention to the history, ethnography, and politics of individual countries, rather than imposing uniform policies.

To explain how Africa might prosper, he knows, requires an account of why it hasn't. Many development experts have been inclined to blame political pathologies. "Poor performers have corrupt, predatory or brutal governments, or sometimes, even worse, no government at all, but rather civil war among competing warlords," Martin Wolf, a British economics commentator, noted in his recent book, "Why Globalization Works." "The failure of the state to provide almost any of the services desperately needed for development is at the root of the African disaster." Sachs begs to differ. The quality of governance is low in Africa, he concedes, but that's the case in nearly all impoverished regions. And the causation runs from economics to politics, rather than vice versa: "Africa's governance is poor because Africa is poor."

Why is Africa poor? Sachs argues that economists have generally paid too little attention to geographic factors. In Bolivia, three years into his career as an economic adviser, he

met a World Bank consultant named David Morawetz, who pointed out that Bolivia was a landlocked country with high transport costs. As a result, it had succeeded only in exporting goods with a high value-to-weight ratio, such as silver, tin, and cocaine. Lower-value goods, such as foodstuffs, were not worth exporting once the cost of getting them to the market was taken into account. "Morawetz's point about Bolivia's geographical distress was truly (and incredibly) something new to me," Sachs recounts. "In all of my training, the ideas of physical geography and the spatial distribution of economic activity had not even been mentioned." Alerted to the importance of geography, Sachs decided that Africa's failure to develop was probably connected to the fact that much of the continent is hot, isolated, and ridden with tropical diseases. Starved of fertile soil, transport links, power, and adequate health care, much of the continent is stuck in "the worst poverty trap in the world."

He describes visiting a group of villages in the Sauri region of western Kenya, where AIDS has stricken thirty per cent of the populace and the survivors don't have enough money for fertilizer or mosquito nets. "There are no cars or trucks owned or used within Sauri and only a handful of villagers said they had ridden in any kind of motorized transport during the last year," he writes. "Around half of the individuals at the meeting said that they had never made a phone call in their lives." With some relatively modest resources, Sachs says, a "clinical economist" could provide many of the things that Sauri desperately needs: a power line to a nearby town, a health clinic with a doctor and nurse, fertilizer, water-storage facilities, mosquito nets, a cell phone, a truck.

How much would all this cost? Sachs and his colleagues at Columbia's Earth Institute estimate the bill for getting the Sauri region up on its feet at three hundred and fifty thousand dollars annually, or about seventy dollars per inhabitant per year. "The benefits would be astounding," Sachs writes. "Decisive malaria control, a doubling or tripling of food yields with a drastic reduction of chronic hunger and malnutrition, improved school attendance, a reduction of waterborne disease, a rise in incomes through the sale of surplus grains and cash crops."

The U.N. anti-poverty plan would take that Sauri rescue program and scale it up. Each low-income country would devise a detailed multi-year poverty-reduction strategy, identifying its specific needs, which it would then submit to the donor countries. After reviewing the plan, demanding modifications where necessary, the donors would agree to provide enough money to carry out the strategy. Until the poor countries submit their requests, it is impossible to know exactly how much the U.N. plan would cost, but Sachs suggests a figure of a hundred and thirty-five billion dollars in 2006, rising to a hundred and ninety-five billion dollars in 2015.

Curiously, Sachs scarcely acknowledges that his views have evolved over the years. In a 1996 article for the World Economic Forum, he argued that big government and social-welfare spending impede growth. Now he is calling for the West to finance big-government programs in Africa. Still, readers will be more concerned with the practicality of his proposals than with the consistency of his opinions. And the plan his book lays out is impressive not only in its ambition but in some of its details.

He argues, persuasively, that aid ought to be extended in the form of grants, instead of loans, which have to be repaid, and that it shouldn't be tied to specific expenditures.

(Some donors have insisted that the money they give be spent on goods and services they export.) Ideally, aid should also be guaranteed for long periods. “In the past, donors often helped countries to build clinics, but then rejected the plea to help cover the salaries of doctors and nurses to help staff the clinics,” Sachs notes. “The predictable result has been the construction of empty shells rather than operating health facilities.”

Under the U.N. plan, financial assistance would be extended until 2015, as long as the recipients met certain performance targets. Health care, primary schooling, and other services for the poor would be provided free of charge, reversing the recent trend toward user fees, which the World Bank and the International Monetary Fund have encouraged in a misguided effort to improve efficiency. “The extreme poor don’t have enough to eat, much less to pay for electricity or water or bed nets or contraceptives,” Sachs observes.

He’s surely right to emphasize spending on health care, direct poverty relief, and education. For one thing, rates of infection, malnutrition, and enrollment in schools are a lot easier to monitor than over-all economic progress. In Tanzania in 2001, for example, the government more than doubled the education budget and abolished user fees, using aid money to help meet the cost. Since then, the enrollment rate in primary schools has risen from sixty per cent to ninety per cent.

Yet, as the history of development policy suggests, there can be political dangers to overpromising, and Sachs, by placing so much emphasis on geography, underplays other reasons for Africa’s stalled development. Most African countries, bequeathed arbitrary borders by their colonial heritages, are ethnically heterogeneous, and that has led to political problems, as groups compete for the spoils of government. Kenya, which contains about forty different ethnic communities, has been plagued by corruption and ethnic conflict, as have many African nations. Congo, Ivory Coast, Sierra Leone, and several other countries have been riven by what the development economist Paul Collier refers to as resource wars, in which rival ethnic groups compete for control of valuable natural resources.

Sachs, as he did in Poland and Russia, refuses to acknowledge that institutional failures could hobble his ambitious plans. “Africa shows absolutely no tendency to be more or less corrupt than any other countries at the same income level,” he writes. Then he presents the results of a study that he and some colleagues carried out recently, using various indicators of quality of governance. Countries they judge to have “average” standards of governance include Chad, Republic of Congo, Eritrea, Rwanda, and Sierra Leone—all places that have recently experienced devastating civil conflicts.

Many African scholars, such as the Ghanaian economist George B. N. Ayittey, are far more willing to criticize their kleptocratic governments than Sachs is. Ayittey points out that aid money sometimes helps corrupt and incompetent regimes to remain in power. The World Bank and the I.M.F. extended nine loans to the tyrannical administration of Mobutu Sese Seko, who looted Zaire for decades, at one point taking personal control of an entire gold-mining region. Sweden and other Scandinavian countries supported Julius Nyerere’s socialist regime in Tanzania, which almost destroyed the agricultural sector by dragooning scattered bushmen into collective farms.

Sachs also downplays the problem of misappropriated aid. Many African nations are so poor that under the U.N. plan they would probably receive annual aid payments

equivalent to fifteen to twenty per cent of their gross domestic product. Without adequate safeguards, one has to wonder how much of this money would end up helping the people it was supposed to reach. Sachs's plan calls for recipient governments to commit to good governance, it's true, but, once the money started flowing, these assurances would need to be supplemented with stringent external supervision.

Still, Sachs is right to challenge the pessimism that blankets the issue of foreign aid. Americans tend to view the entire sub-Saharan as a disaster area. In fact, during the past decade many African countries have edged toward democracy. A number of dictatorial leaders have retired, died, or been overthrown, including Kenya's Daniel Arap Moi, Nigeria's Sani Abacha, and Zaire's Mobutu. In 2003, Freedom House, the nonpartisan advocacy group, rated eleven African countries as free and twenty as partly free. That's a big improvement over the state of affairs twenty years ago.

On the economic front, too, there have been glimmers of progress. The rapid development of Mauritius, an island off the coast of East Africa that has a thriving textiles industry, shows that under the right conditions Africans can compete in the world economy. The sharp rise in the price of oil, coffee, and other commodities has buoyed African commodity producers, such as Botswana, Equatorial Guinea, and Mozambique. Even some big countries that previously appeared to have stagnated, such as Ethiopia, Ghana, and Uganda, have recently managed to maintain modest gains in per-capita income.

What Africa needs is one or two unequivocal success stories that would serve as models to reformers in other places and attract global investors. Among the strongest arguments for the U.N. anti-poverty plan is that it would offer help and encouragement to countries that have embarked on reform programs but are still struggling to break out of poverty traps. "The biggest problem today is not that poorly-governed countries get too much aid," Sachs notes, "but that well-governed countries get too little." Ghana, Kenya, and Ethiopia are good examples. Each of these countries has worked with the World Bank and the I.M.F. to introduce reforms but is also facing enormous challenges, such as AIDS and malaria and heavy debts.

Although a little humility would help his cause, Sachs, youthful still at fifty, must be commended for trying to hold rich nations to their promises, and for reminding his countrymen that military action is not the only way to export American values. It will be fascinating to see how he gets on with Paul Wolfowitz, President Bush's nominee to head the World Bank. Some commentators have speculated that Wolfowitz will seek to revolutionize the Bank's lending policies. It is more likely that the Bank, which is full of well-meaning and knowledgeable people, will influence Wolfowitz's thinking, as happened to Wolfowitz's predecessors, including the Bank's current president, James Wolfensohn, and, going back thirty-seven years, Robert McNamara, who also moved to the Bank from the Pentagon. Once you immerse yourself in the realities of global poverty, you're likely to rethink even your most cherished orthodoxies. Just look at Jeffrey Sachs.

In a few months, Wolfowitz may well be pressing politicians in rich countries to increase their aid budgets, including his former colleagues in the Bush Administration. In order to pay its share of the U.N. poverty plan, the United States would have to find

another forty billion dollars a year by 2015. Sachs reminds us that merely reversing the President's first-term tax cuts for those earning more than half a million dollars a year would generate enough to meet this target. Here's another way to look at it: to pay for the extra spending, each American would have to contribute less than the cost of buying a cappuccino from Starbucks once a week. Aid is not a panacea, and, even if the funding Sachs wants were to materialize, his grandest objectives may well remain unfulfilled. But, targeted carefully, aid can reward responsible governments, encourage individual initiative, and alleviate suffering. Surely that's worth a cup of coffee. ✦