Common Wealth: Economics for a Crowded Planet

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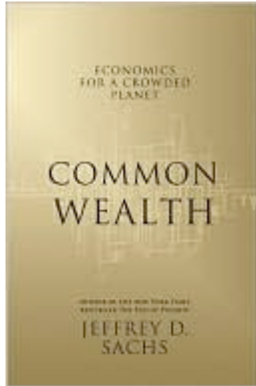

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Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs. On behalf of the Carnegie Council, I'd like to welcome our members and guests and to thank you for joining us.

Today it is with extreme pleasure that we welcome one of the most committed and passionate economists writing on development issues today, Jeffrey Sachs. There are few people who have been such indefatigable thinkers about the economics of poverty as our speaker. Professor Sachs is that rare combination of scholar and public servant who, as the director of the Earth Institute at Columbia University and as special adviser to UN Secretary-General Ban Ki-Moon, has for quite some time applied his erudition, stylish pen, and energy to a long list of causes. A further reading of his résumé, which you should have received when you checked in, will attest to this.

The last time Professor Sachs spoke at the Carnegie Council, he offered a plan to eliminate extreme poverty, especially in places like Africa, by the year 2025. In *Common Wealth: Economics for a Crowded Planet*, he goes a bit further and raises the argument to a higher level of moral concern, to argue that the crises facing humanity are daunting. He writes that we need a new economic paradigm to address thef realities of a crowded planet, one that can manage the world's limited resources effectively, because if we don't, we could face consequences of unprecedented severity. The time, he says, is quickly approaching when nations great and small will be forced to confront the fact that humanity fshares a common fate. While use of the world's resources for a number of us has raised living standards in some parts of the world, it has also put the planet on an unsustainable trajectory.

While this may sound pessimistic, Professor Sachs is anything but. He still believes that the solutions to head off true threats to our global security, such as global warming, environmental destruction, overpopulation, and extreme poverty, can be solved in a cost-effective manner. But to achieve these ends, he recommends a new approach to global problem solving based on cooperation among nations and the dynamism and creativity of the nongovernmental sector.

As one of the leading international economic advisers of his generation, he is known for combining words with actions. From 2002 to 2006, Professor Sachs was director of the UN Millennium Development Goals and special adviser to Secretary-General Kofi Annan. He later took this experience to become president and co-founder of the Millennium Promise Alliance, which is a nonprofit organization aimed at ending extreme global poverty.

Drawing on this vast experience and unsurpassed knowledge, it is difficult to think of any other individual

who could discuss these multiplicities of threats with such coherence and lucidity as Professor Sachs. Therefore, when he calls for wealthy nations to break the political logjam and begin to invest in efforts which will reduce extreme poverty, we should pay attention.

To support his thesis, our speaker analyzes economic data and demographic trends and draws on environmental science to create an accessible exposition of these looming problems. He knows that we can eliminate mass poverty, control population, and maintain environmental stability for less than 2 percent of our global income. With this approach, Professor Sachs is then able to give us concrete, pragmatic, and low-cost remedies, complete with benchmarks and budgets, which in the end provide a clear roadmap towards sustainable and equitable global prosperity.

As he eloquently contributes to the debate over the world's future, he asks that we believe in a world where we can work to achieve shared prosperity, to believe that technology will give an opportunity for mankind to better itself, and that reason matters. If you agree, then you came to the right place this morning. But even if you do not share his vision, I hope you will listen carefully and seriously consider what Professor Sachs has to say. I know he will provoke you to think about these issues, and you just might change your mind.

Please join me in giving a very warm welcome to the widely celebrated Jeffrey Sachs.

Remarks

JEFFREY SACHS: Thank you so much for that really lovely introduction and for the chance to be back with a lot of friends in this wonderful setting.

I'm very grateful that you are still listening to an economist at all. My favorite working definition of an economist that I recently heard is a person who has been put on the planet to make astrologers look good. It may be a little unfair to astrologers, but, still, it's probably pretty much appropriate.

We are in such a tumultuous time that every day brings new shocks and makes it hard for us to get our bearings. I'm sure that the weight of events bears down on you, and it certainly bears down on me and on the agenda to try to improve things, when we feel that we are just trying to prevent things from collapsing right now.

I think it would be useful for me to don my macroeconomist hat first, and therefore to talk about the general economic situation. Of course, I will argue that it links in intimately, in many deep ways, I think, with the themes of sustainability. Part of the reason we are in the current crisis is our unsustainable course. One of the ways that we are going to get out of this crisis is by choosing sustainability. So there is an intertwining, certainly, of the economic crisis itself and the longer-term things we need to do on this planet to solve some very basic and deepening problems.

Clearly, we are experiencing a financial meltdown the likes of which we have not seen in modern history. While it's getting tiresome and annoying to hear the Great Depression invoked hour by hour—and we are not in a Great Depression—it is true that we have not had this kind of meltdown, at least on the financial side, since that period.

A financial meltdown is not the same thing as an economic meltdown and a depression. These are different things. The financial meltdown involves the loss of wealth in the stock market, the loss of wealth in housing, and the consequent generalized crisis in the financial institutions. The economic crisis is jobs, income, well-being, access to health care, ability of people to clothe and shelter and feed themselves and educate their children. Those are related, but those are different things. So we can have a financial meltdown and not have an economic meltdown. We can't have a financial meltdown without having a recession, which is the modest version of a downturn. And we are going to have a serious recession, because that's already well in train and it's going to get worse for many months to come. This will be a miserable year by any count economically, and it could be a miserable two or three years by any count.

But there is a big difference between a miserable year and a Great Depression. I believe we can really avoid the worst, if we keep our heads on straight.

The big problem is that during crises we tend to make big mistakes. So it is also a time of threat not because of automatic linkages from the financial crisis to the real economy, but because a financial crisis, and the recession that goes along with it, provokes a lot of possibilities for error. Those errors can turn into conflict, which is what history shows. They can certainly turn into political paralysis. Those are big risks—not the per-se economic collapse under way, but the mistakes we might make as a society or internationally as we confront the short-term crisis. It would be the mistakes that turn this into something far costlier. So it's understanding what we need to do to avoid the mistakes that perhaps is the most important lesson of the short term.

Where did this financial crisis come from? What does it mean? How does it translate into the real economy?

There clearly are two main dimensions of this financial crisis. Disentangling them is not easy. It will keep armies of graduate students employed for decades to do this, and then there will never be any resolution of these issues until this event is long forgotten and we go on to the next debates. The two pieces of this clearly involve monetary policy, on the one hand, and financial-market operations on the second. Two things have contributed to what's happening, with different weights put on these factors.

On the monetary policy side, looking back, it's quite clear that monetary policy in this country was overreaching at several points during the last decade. I believe that Alan Greenspan and the Fed that he led made very, very serious errors at a number of points. But the main thing, in my opinion, that went wrong was the idea that all slowdowns must be aggressively fought. By taking that point of view without really having the power to achieve that, we treated constantly slowdowns by pushing harder and harder on our policy instruments, turning the dials ever more wildly, until we could no longer do that.

So I think the intention wasn't bad, but the intention was overreaching. The idea that the Fed could fine-tune the business cycle, stop slowdowns, quickly react to crises, and thereby keep the economy always at full employment is kind of the economist's dream, but it is probably beyond the means of the economic science, such as it is. By trying to implement it, in my opinion, the policies became less and less tethered to the medium term and created the ground for instability, actually. So this, in my opinion, is policy-induced instability, in part.

An example of that that is now fairly well understood, and a bit infamous, is how the Fed ratcheted interest rates down dramatically after the bursting of the dot-com bubble and kept interest rates at about 1 percent in 2003 and 2004, the lowest in history, with the idea of offsetting the old decline in stock prices that came with the bursting of the dot-coms. But by doing so, it helped to set off the housing bubble in the rebound. That's policy instability. You are swinging so far in one direction or another that you are fighting the last war and setting up the challenge in the future.

The second obvious problem is the financial-market deregulation and lack of oversight and lack of responsibility. It really is a damning matter for our institutions that Madoff could go 13 years without a single trade. That we should have been able to ferret out, one would think, for an investor of tens of billions of dollars. That's a pretty serious failure of basic institutions—not just of trust, of decency, and all the rest, but of the most basic institutions.

Of course, it came in an environment that was deeply politically and, in my view, ethically deficient. That's our community. We were so happy with the gazillions of dollars of wealth and the bonuses and the $30 billion per year of Wall Street Christmas pay and all the rest. It really was go-go-land, and the most basic standards of conflict of interest, of oversight, of decency completely broke down. This was bipartisan. The revolving door between Wall Street and Washington is profoundly inappropriate. You just call Goldman Sachs—no relationship, neither for the good nor for the bad—you can call Goldman Sachs

and say, "Send us the next Treasury secretary. Send us the next senior staffer." You call Citibank. This is not a way that we can really run our country in a stable, democratic, and appropriate manner.

All of that broke down. It happened also that Greenspan had a free-market ideology. Ayn Rand, his epitome of vision, always glorified greed, and we did glorify greed in this period to a shocking extent.

I know it in a different way, because I always felt that it was odd that our country could give $30 billion in Christmas bonuses to a small number of people, but couldn't find a fifth of that for dying people around the world. So my view always, quite deeply, was that we became unhinged as a society. While I don't believe it's right to draw tight moral lessons to business cycles, I don't think it's also wrong to neglect the overall ambience in which we were operating, and the irresponsibility of it, as this second component. We just stopped thinking, regulating. It was a game. What's so amazing is that it's so profoundly unethical, how so much of Wall Street behaved, that they can't stop, even when the full public glare is on. So what Thain did in paying several billion dollars of bonuses out of our money to Merrill executives, who are, at least a few of them, on the front page of the *Wall Street Journal* today—we ought to have a rogues' gallery of them, and we ought to get our money back also. That's our money, not their money. So I regard it as absolutely fraudulent—nothing more than fraudulent—that this payment was made. I don't understand why prosecutors aren't going after them, and regulators. This has nothing to do with morality. This one is theft from us.

This is the second piece of this puzzle. There is a big debate about how to allocate between the monetary side and the financial side. The financial stories are far more interesting. They are lurid. They really do get my heart racing also. But my guess is that the monetary side is even more important, actually. While the financial engineering, the derivatives, the credit default swaps, the CDOs, the CDO-squareds, and all the rest really did leave behind a fabric of disaster that we can't unravel right now without huge taxpayer calls and without a real hit to the economy, my guess is that this could not have happened if interest rates hadn't been set at 1 percent per year, if monetary policy had not been pursued the way it was.

The United States plays such a central role in the international monetary system, for a lot of reasons —basically, it is the reserve currency for all the rest of the world—that when the Federal Reserve expands the money supply, that tends to lead to expansions of money all over the world, sometimes in direct ways and sometimes in indirect policy reverberations that are undertaken by other countries. So what actually happened is that our monetary ease was replicated all over the world during the last decade.

We had, in fact, by conventional now and my count, three bubbles, not one. We had the East Asian crisis, which was a large financial inflow into East Asia, which stopped in 1997. That was quickly followed by a large financial inflow into the dot-coms, up until 2000, 2001. That was quickly followed by a large financial inflow into the subprimes.

My view is that focusing on specific financial innovation is probably not the right thing. This isn't a subprime crisis per se; it's a broad asset-market bubble. It's not only American; it's worldwide. I think it was led by the United States.

As a footnote for any of you who happened to see Paul Krugman's column yesterday, called "The Revenge of the Glut"—this is only for aficionados of financial crises—while Paul gets almost everything right, he got that one completely wrong, in my opinion. This was not a crisis caused by Chinese saving. This was a crisis caused by American overexpansion and American dissaving. All his chronology was off-base yesterday.

I raise that because we have a tendency to blame others when crises come. One of the blames that has been put on is China. My advice is, don't blame your leading banker, who has been the last one willing to finance you for many, many years, and who is now holding almost $2 trillion of reserve assets. They didn't make us do this, which is what the column said: We couldn't help ourselves; they just wanted to save so much that we couldn't help but dissave.

This is really not correct. We chose a very expansionary course, for monetary and political reasons. It was amplified by financial-market deregulation and irresponsibility and failures throughout our system. It was untethered because we dropped all pretense of social norms of responsibility, and greed became good. You could have bonuses that were massive without anybody asking about them and without anybody regarding them as odd. This was the social milieu in which this took place.

Quantitatively, what happened is really astounding. Between 2003 and 2007, worldwide, stock markets rose by $30 trillion. That's a lot of increase over a four-year period. It was roughly a doubling of the value of stock markets, not based on any doubling of real anything. That's a bubble. The stock markets became unhinged from the real values. You could say, "No, that's not a bubble. That's expectations of glory days ahead. That's discounting future breakthroughs in the world economy," and so forth. But it was basically a bubble, in my view, fueled by very easy monetary policy and then enabled by this financial deregulation.

But the upshot of it was a huge increase in paper wealth. I would guess, though nobody has made the comprehensive numbers, that the housing values worldwide rose probably $10 trillion as well, maybe even more, so that the value of wealth, if you add stock market plus housing, was perhaps $40 trillion —again, off-the-charts in terms of underlying value and in terms of historical trends. Housing prices in the United States, on average, nearly doubled over a seven-year period. That's extraordinary, because there was no underlying basis for that.

In the last two years, all of this has unraveled. The boom turned into a financial bust. The loss of wealth, on paper, worldwide is about $40 trillion. It implicates the whole world.

The link from that boom and bust to the real economy is complex and quite heatedly debated. There are several different channels to how that collapse feeds through to the real economy. Of course, there are some immediate, obvious ways—people that borrowed subprime and can't repay are foreclosing at record numbers. That's a social crisis, as well as a housing-market crisis. Financially, of course, the loss of value of homes is several trillion dollars. That is destroying much of the capital of the banking sector, and it has wiped out most of the investment banking sector. That's a feature of leveraged institutions, which banks inherently are. Although Wall Street, on its off-balance-sheet institutions—the so-called SIBs—they were leveraged 30 or 40 to 1. They are easy to break when the bubble turns into a bust, because even modest declines of average asset values on your balance sheet wipe out your net worth. But the idea was that they were paying themselves the bonuses along the way, so they got out about $150 billion of bonuses at the top of these firms in five or six years. So they're fine, the shareholders are gone, and we're left to pick up the pieces.

Commercial banks don't have so much leverage, roughly 10 to 1. But the commercial bank leverage is even riskier—what we learned was that even an investment bank failing is enough to blow up the world financially, which is what happened on September 15, when Lehman was allowed to go into Chapter 11. It turned out that even though Lehman is not a commercial bank and doesn't have commercial deposits, and therefore wasn't protected by FDIC, Lehman did have deposits for money-market funds, and so, as if it were a commercial bank, it was part of the liquidity system, not just a dealmaker or an asset trader or a hedge fund. It was part of the liquidity system. So when Lehman failed, the money-market funds got hit. One of the money-market funds failed two days afterward, and that's what set off this worldwide crisis, because it was like the first major bank run that we had had in this country in decades.

The thought of the Treasury and the Fed when they let Lehman fail was, that's not a bank; that's more like a hedge fund. But we learned that it was more like a bank, and we don't let banks fail, because banks, when they fail, lead to cascading panic and loss of liquidity. That's what happened when Lehman Brothers failed.

The decline of asset prices, of course, has immediate ramifications in the housing market. That's the most obvious, but not, financially and economically, the most important, although it has its social consequences.

Financially, there are two big aspects of this decline. One is what it does to damage the financial system. The damage is obviously profound. A lot of our banks really should be completely in public hands right now. Maybe there would be salvage value for shareholders. But the way that this administration is treating Citibank is not appropriate, in my opinion. To say that this is still a private functioning bank, in which 60 percent of the shares are privately owned and we are keeping close monitoring—this is a myth. The whole administration is rampantly filled with Citibank officials. I think that just from an optical point of view, which counts in a democracy a lot, this is not an appropriate way to be proceeding at this point. This bank does not have the value, the shareholders are on the hook, and there is too much conflict of interest, or apparent conflict of interest, to be pretending that this is a normal bank.

With AIG, we have a share that is heavy majority, but you see that we don't go up to the 80 percent mark. We really own the whole thing, thank you, but we don't go up to the whole amount, because then we would have to put it on balance sheets in certain ways. We would trigger other obligations, which, in fact, are there latently, but not there visibly.

So I think there is too much game-playing, actually, and not recognizing the hit right now. I fear the political consequences even more than the financial consequences. I fear not so much the zombie banks, but the poisoning of the politics: Who is really running things? Why is Wall Street continuing to get large bailouts? If we need to bail it out, at least let's own it, so we can run it for the interests of the country and then wind down what needs to be wound down. To my mind, that's politically a more palatable proposition, not only in populist terms, but in democratic society terms. We don't know for whose interests these deals are being made.

What shocks me, actually—it shocks all of us; this is nothing personal—every day decisions of tens of billions of dollars, if not more, are being made by a few people, without any democratic oversight to speak of. This, I think, is inappropriate. Democratic oversight is difficult—we have not done a great job of it—but I think we need to get back to the practice of it. This seems to me like a good place to start, actually.

There is one more huge channel, which I think is probably the most important of all, in fact, and that is that we all feel poorer. When we feel poorer, we spend less. To my mind, that's probably the single dominant economic reality that we face right now. The two theories are:

We are in recession because we are suffering a heart attack of the system. The blood doesn't flow through the arteries anymore, because the banks are constricted. So we need a bypass. That's one view.

The alternative view, which is really my view much more, is that we have had a heart attack and we need to lay off consumption for a while. Our wealth is way down. It's not a matter of simply reviving the lending. We are not going to bounce back the way we were before, because our wealth is much lower, and $40 trillion of wealth—though, honestly, not the end of the world—is still a lot of loss. It will create a sustained reduction of consumption spending.

In the United States, our wealth loss is probably around $15 trillion so far. Our annual income is about $14 trillion. That means, if you think about it, to measure a wealth loss on average in the country, it's as if we have each lost one year of our earnings in wealth. But, of course, some people have lost a lot more than that. Other people did not have that amount of wealth. That's the average. We have lost basically one year's output.

That's a heavy blow. It's not a devastating blow. It doesn't mean the end of our economy, the end of our society. It doesn't mean a Great Depression. But it does mean that, gee, you take a little bit of a break from that next car, from the second home, from the new boat, from the discretionary spending to go to a restaurant, and many other things. That clearly is happening across American society right now. It's happening simultaneously all over the world.

The rule of thumb is that each dollar loss of wealth leads to about a six-cent decline in spending. That's the usual economic estimate. So if you lose 100 percent of income in wealth—your bank account goes down by one year's income—the typical economist's estimate is that that would lead to a 6 percent decline of consumption. You don't stop consuming, but there is a decline.

A 6 percent decline of consumption is a lot for an economy to absorb—6 percent of GNP, I mean. That's about a 10 percent decline of actual consumption. Should have put it more carefully. You reduce your consumption by about 6 percent of your income, and if consumption is 70 or 80 percent of your income, it means that your consumption goes down by about 10 percent.

That's probably what is happening right now. But a 10 percent decline of consumption or a 7 percent decline of consumer spending as a share of GNP is a massive body blow to the economy. It has what's called a multiplier effect. The first round is a loss of 7 percent. But then the factories that would have sold those goods and services lay off people, the stores close down, the shops close down, the income of those workers and shareholders goes down. That leads to a second-round decline of consumption. That leads to a further fall of consumption. This is the famous multiplier that was identified by John Maynard Keynes in the context of the Great Depression. We are in that multiplier phase right now. That's why gross national product could decline 3 to 5 percent this year, possibly even more, possibly less. But it does mean that we have a very sizable decline of our output that, in my opinion, is largely related to our sizable decline of consumption.

We are not the only ones for whom this is happening. This is worldwide. It may have started here, but the worldwide stock market boom was general. The housing boom was not general, but it was widespread. It was the United States, Spain, the United Kingdom, Ireland, Iceland, Australia, and some other places. Those places are hitting a housing crisis. But all over the world the stock market crisis is pervasive.

If you add these two things together, there is also the fear factor and expectational factor. The question is whether the constriction of lending feeds further declines of consumption; the fear of collapse causes people to retrench even more. Not only is there definitely the mechanical effect of wealth on income, there is also the fear factor on wealth and there is also the fear factor on consumption—so-called consumer sentiment—which is at its lowest rate in history right now, since the recording started in the post-World War II era. In this sense, we have quite a cascade of failures right now.

What do you do about it? Of course, there are some very specific proximate things that can be done. Homeowner relief is treating a symptom, but when you are very sick, you treat symptoms. Homeowner relief doesn't solve the underlying macro crisis, but it helps people to stay in their homes. If it's accused of being a symptom—I also take Tylenol when I have a fever. That doesn't solve the underlying problem, but it sure does make you feel better. I think that you treat symptoms. That's one thing.

Second, you reestablish a social safety net. Our country does not have a social safety net to speak of. We are disgracefully bad at this. We need a national consensus. Even the Republican Senate and House should show some decency right now. They have not shown it yet. But they should acknowledge that we are all in this together, that their small government/small tax nostrums, whatever else one would say, do not apply for people that are hurting badly, that have lost health care, that have no coverage. Medicaid is broken. It needs help. People are hungry. People are out of homes. We have a social crisis here. We have had a social crisis for a long time, which we never wanted to look at.

I'll tell you an interesting and, in my view, damning factoid. The word "poor" or "poverty" did not show up one time in any of the presidential debates—not one single time. "Middle-class" and its cognates show up dozens of times.

This is wrong. We have a lot of poor people in this country. They need help. We just don't like to look at it. We don't want to acknowledge it.

The second thing you do is, indeed, you take care of people who are in great difficulty. We are in the middle of the political battle for that.

Then comes the macroeconomic challenge. The macroeconomic challenge is a debate, first of all. There are some who say, do that bypass operation or an angioplasty. Open up the arteries of the banks again, and we'll get back to where we were before. The problem is that the pipes which carry the lifeblood of credit in the economy are constricted. Bank capital is impaired. Recapitalize the banks, and then we'll go back to where we were.

I have explained why I don't think that that is the case. But that's a vision of trying to boost consumption again. We are a consumer society. What has stopped is consumption. What people refer to is another very great insight of John Maynard Keynes, which was that when consumption declines—it was once upon a time thought that that would automatically translate into investment. The idea was, if you are not consuming, you put your money in the bank, the bank lends it to somebody else for investment, and what we don't save we invest. The theory used to be, before Keynes, that if society wants to save more, that's fine; more money will go through the financial markets, interest rates will go down, and investment will go up. What Keynes said was, not so fast. Before any of that happens, the amount of output in the economy may go down so much that even though people are saving more of their income, their income is falling so much, and saving times a shrunken income base is actually producing less saving rather than more saving—what's called the paradox of thrift.

One idea is to try to open up the banking and finance and get consumer spending going again. I have my doubts. We were already overspending and I don't see this wealth bubble coming back, because I regard it as a bubble, not as a reality.

The alternative, in my opinion, is—and here's where I will conclude, with my book, because it is relevant—we invest for the future. We recognize that we are going to consume less. That's not going to turn automatically into investment, but it does leave free, potentially, the resources in our society for investment. What used to be used for producing consumer goods now really can be used for investing in climate control, in sustainable energy, in rebuilding our infrastructure, in rebuilding our housing, in helping the poor, in protecting the natural environment, and so on. That, to my mind, is the right strategy for us. What we do now is to say, okay, we were over-consuming before. We are not going to try to go back to over-consume. We are smart enough to know that if we just stand on the sidelines, we are not going to get more investment; we will get more unemployment. So we need, as a matter of national policy and international policy coordination, to promote investments, through public leadership, to take up the slack of the resources.

But my view is that that's potentially an enormously positive development. It doesn't feel like that now, but I think our society was tremendously under-investing in the future. We were so much engaged in our consumerism and in our rampant spending that we were the SUV generation, and we were wrecking the environment, we were neglecting the poor, and we were letting our infrastructure fall to pieces. Now we have the chance to take a deep breath and make public investments again to get to the core challenges that we really face.

This, in my view, is pretty much exactly the essence of President Obama's framework that he unveiled last week. I think it's a wonderful document. I'm referring to the 10-year budget framework. I don't think it's a hugely accurate document in terms of the specific budget numbers, because I think it's overoptimistic. It's based on a rebound of growth that is think is unlikely to happen. It's based on a level of government spending that I think is actually, in many areas, projected to be too low, contrary to the actual policies that he is pursuing. The document, in my view, rightly announces major initiatives in infrastructure, in education, in health, and in other areas, but the numbers then don't show it, because they are trying to show that the budget deficit comes down more sharply.

So I regard it as a very superb policy framework, but not such a convincing budget framework.

What's the discrepancy? The discrepancy is that I believe that in the end we need public investment to revive the economy. We need to invest in our infrastructure, sustainable energy, a new generation of automobiles, our natural wilderness and natural resources. This is an opportunity to make good on many things that we have been neglecting. It's also an opportunity to have our factories produce to build the basic infrastructure in the poorest countries in the world as well, which would be good for our jobs and good for those economies and good for global peace.

But in the end, it's going to have to be paid for, not just through government borrowing, but through higher taxes, which is another one of the myths of our country—that we can somehow go on solving every problem by cutting taxes.

My view is that we have an opportunity here to invest in the future. That's how to overcome the paradox of thrift. We can make those investments now. I believe we are going to have to pay for them in a variety of ways, some of which will be called taxes, in the future. All of this requires nothing less than a reframing of our societal understanding and our social objectives. If we try a quick fix—if we just turn this dial and that dial, hope springs eternal, the markets go up again, the banks start lending, and go on where we were—we will fail. We were already on an unsustainable course.

But if we say, let's look at this for what it is—a wakeup call that we were not on a sustainable path—and let's think seriously about what sustainability means and understand that that includes not only environmental sustainability, but social sustainability, and it includes solidarity in a society that has had precious little of it—so that we understand that we became over 25 years the most divided society in our history, so divided that the poor were absolutely invisible to us—if we do those things, we will come out of this crisis a lot stronger than when we went into it.

Thanks a lot.

Questions and Answers

QUESTION: Understandably, you focused on the current global crisis. But you have devoted the last decade, if not more, of your life to narrowing the gap between the rich and poor countries of the world. You had a book about aiming for the end of poverty by 2025 for a huge portion of the world.

What is your assessment of the impact of what you have discussed this morning for the poorest countries of the world and for the overall goals of the Millennium Development Goals and so on? What's your message to those countries?

JEFFREY SACHS: The poor always get hit very hard, even if the proportionate shock is a bit less, perhaps, because they are not holding the stock market assets and so on. The poor are getting hammered in terms of falling export commodity prices, falling export volumes, expatriate workers being sent home from the Middle East, from Europe, expats losing their jobs, and remittance income falling sharply, projects obviously not going forward in direct investment, portfolio funds which had been set up not going forward.

So the poor countries have seen a dramatic decline of growth that had started to take off. In Africa growth will probably decline from 6 percent last year to maybe 2 percent this year. In the African context, with population growth rates of 2 percent or so, this means a massive increase of the numbers of people living in poverty.

On top of that, the poor countries are suffering—like we all are, but they are suffering more—from climate instability. The climate change has already started in a quite serious way: more frequent droughts, less reliable rainfall, more intense rainfall, more extreme weather events.

So this is a very difficult period. Of course, aid levels are being cut as well by many governments. Italy, which is the president of the G8 this year, is tentatively on track to slash its foreign assistance by more

than 50 percent, which is absolutely shocking. This could become more general.

We have not heard almost anything from our own government yet about these issues, which I think accurately reflects the priority that they are given in the bigger picture, though I know that President Obama is committed to these issues very much, as is Secretary of State Clinton. But whether we are actually going to pay something for them remains to be seen. In the first $3 trillion of our bailout, not a penny has gone for the poor in the world yet, which is a little ironic, because this crisis we clearly created also. So it's not a matter of being nice; it's a matter of a little bit of compensation for misery caused. But, of course, there is no legal claim to that or political claim. This is, in that sense, quite serious.

It might seem like time to pack up the remainders of the first book on the end of poverty. But I think it's actually, on the other side, not so dismal and dire, for the reason that I emphasized in that book, and that is that the difference in living in extreme poverty—or dying from extreme poverty—and living a life that is above subsistence is a small financial difference. Our technologies have actually gotten a lot better since I wrote that book.

The biggest revolution that is positive in this world is the mobile revolution. It has changed everything in development. It is by far the most powerful tool that we have, because not only do you have mobile connectivity everywhere—everywhere—but within two or there years, we are going to have broadband mobile connectivity just about everywhere, including in the poorest places.

It's the oddest thing, with that one specific technology, that it has penetrated to the extreme poor parts of the world on a market basis. I know no other technology that has that characteristic. Computers didn't do it. Certainly anti-malaria bed-nets didn't do it. Clinics didn't do it. Vaccines didn't do it. The only technology I have seen in my career that truly reached the bottom of the pyramid—the only one—on a market basis, was mobile phones.

These are going to become ubiquitous and absolutely powerful. They will change society and they will change politics. They could make everything far more unstable. The ability to organize, the ability to rebel, the ability to do all sorts of things has increased tremendously as well. But on the other hand, the ability to undertake economic development has also improved tremendously.

I'm working on many very specific initiatives that are showing great promise when they are applied. We have malaria deaths down very sharply all over Africa. Our friends at Rotary are partnering in this. These are wonderful results. There are some places that were endemic malaria places where we can't even find falciparum malaria anymore, which is a phenomenal success. Of course, polio, another Rotary wonderful initiative, is down a factor of 1,000 and really could be eradicated. It has been eliminated from almost all the world.

So the tools are very powerful. What we have not been able to do is to engage the tools at the scale and the intensity that they could be used effectively.

Yesterday I met with a very senior U.S. official. I was discussing another initiative that I have been working on for a number of years, which is to give help to smallholder farmers. If they get the package of basic improved seed and fertilizer and water management, they can triple their food production and end hunger in their households and in their communities. This official said to me, after I had made a specific proposal for a U.S. contribution, "Well, would that really take it to scale? Would that really get to the core of the solution?"

I said to the official—and I'll quote myself—"Bless you. You are the first American official in this decade to ask me that question." All through the Bush era, I didn't have one grown-up conversation with an American official. It was the most bizarre, deficient, absolutely misguided government we ever had.

I'm being unfair. I had three adult conversations with them, in eight years. I won't go into the details—four, sorry. But that's eight years and I can't tell you how many hundreds of absurd, essentially obscene

conversations, in the sense of complete political irresponsibility, ignorance, putting the worst forward, unwillingness to solve problems.

Maybe one very important thing that is—we all feel it with our president, but we could feel it with our government. We have serious people engaged now. The problems are big. I'm not sure every one is being addressed right so far. But there is a measure of seriousness that's new that came in a few weeks ago. We have grownups back in Washington, at least in the administration—not always in Congress.

QUESTION: Many countries, like those in Eastern Europe, are experiencing a 1980s-style Latin American debt crisis. They borrowed in foreign currency. Their currencies have collapsed, their debts have multiplied, and their economies are falling apart. Other new industrializing countries, like China, are experiencing a Dickensian, 19th-century sort of crisis. Their manufacturing demand is collapsing. There are no flexible labor markets, which means that there are no automatic stabilizers, unemployment is soaring, and there's nothing to cushion this.

You correctly pointed out that in the advanced countries this is a recession, not a depression. But in the two groups of countries I just talked about, isn't this more like a depression? What should be done about them?

JEFFREY SACHS: I think in those countries it could become at the scale of a depression. It isn't yet. What's happening in Eastern Europe is rather classical. It could be analogized to the Latin American debt crisis, but I would say, even more, it's a little bit like the Asian crisis of the 1990s. Western European banks lent a lot of money to the Eastern European economies. That essentially made sense, because those economies were recovering from decades of the Cold War division. A lot of housing was being built and so on.

On the whole, the underlying economic model of lending for investment in Eastern Europe is a sound model. But banks then faced the crisis at home and they quickly repatriated funds to a very large extent and threw these economies into a very acute financial crisis.

It's also a very politically dangerous one, because a country like Ukraine could absolutely face a geopolitical calamity. There are many, many landmines all around in geopolitics in the world. That's one of the risks of crises like this—when I said that bad mistakes can be made.

Europe should be taking a very proactive role in Eastern Europe, and it's not. This is a big deficiency right now of European management. There are lots of institutional problems. The European Central Bank is a technical institution. It's not a political institution, properly. So it takes its mandate narrowly, and it doesn't do the things that it needs to do. It's a rigorously independent central bank, and so it's also not under political authority. And there are many, many other problems. Europe is divided. It has been able to come up with an effective response.

China, I believe, is in a different situation. If I'm wrong, my level of confidence goes down several notches, I have to say. In my way of thinking, China will lead the turn of this downturn and will be the first one to start its way out. If that's wrong, the problems, at least as I have tried to sort this out, are much more serious. It's like having one stone you feel you can securely step on as you cross the river.

My guess is that China, with its nearly $2 trillion of reserves and pent-up internal demand for urbanization, which can take 30 years of investment, looking forward, successfully, has enough internal demand to make up for the loss of export earnings. It doesn't really need to depend on anybody else's foreign beneficence or lending, because it's the banker right now. So it can reduce its export surplus. It can use its own reserves. It can boost its internal demand. I think it's likely to do all of these things.

"Likely" is not sure on anything. And I may be wrong, of course, in that analysis. But I'm banking on a China turn out of this first. I'm expecting that that means that other parts of Asia will also start to recover earlier. So I'm banking on Asia coming out faster than Europe and North America, basically.

If Asia tumbles—it could very well tumble, because Japan and Korea are both in a mess right now, and Japan mismanages its macroeconomy very badly, typically. It's doing so again. Its political leadership is completely fractured, and its institutions are in very bad shape. So sorry for the optimism.

But if Asia can get its act together, it is the surplus region of the world. It doesn't require the foreign borrowing from the others. It has its own reserve base. It has its technology base. It has its internal trade. It has its long-term social needs for investment. China could invest for decades to come just cleaning up its pollution, assuring its water supply, building basic urban infrastructure for another 500 million people— not worrying so much about the global export demand right now. Guangdong, which is their export zone—that's really heavily hit and won't quickly recover. But China is a very big place, and I think that other parts of China can recover.

In general, let me say that if I were doing this, I would be stressing a lot more these global linkages than our national policymakers do. I don't believe that the U.S. team is sufficiently international yet.

I say that—I have students galore in this administration. They are all properly trained in international finance. But I don't see the political attention yet. In general, I find Congress to be not responsible on these matters. If somebody could mention to our good friend Senator Schumer to stop baiting the Chinese, stop viewing this as a time for protectionist rhetoric and heated discussion about currency manipulation. The senator is wonderful at politics and many other things, but not in international currency markets.

This kind of talk is destructive. We just have to move to grownup things right now. We really have to stop doing this, because we need proper coordination with China. That's the most important macroeconomic cooperation right now. It's very fragile. Nationalism in China is very strong, and rising. From their point of view, this completely irresponsible power that over-borrows, that goes to war on flagrant grounds, that is a destabilizing force in the world is also provoking them. They don't like it. I think we should stop playing that game. There's no China card to play. We need to cooperate right now. We need to focus on the kinds of problems you are mentioning very seriously, so that, at a minimum, we don't make big mistakes geopolitically. At least if we are talking, we are much less likely to step on the landmines.

JOANNE MYERS: I think the fact that you chose to speak about the United States today just shows us how worrisome the situation is. I thank you very much for being with us this morning.

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