

The Challenge of Sustainable Development in Latin America
(Transcript)

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Secretary General, Ambassador Valère, distinguished ambassadors, ladies and gentlemen, and, I understand, friends from around the Hemisphere by live video, let me say how honored I am to be your guest today and how lucky I feel to be in these most distinguished and historic halls to join you and to ponder the economic future of the Americas.

For me it's always a kind of homecoming in my own career, because my first work and first love in the field of economics and economic development was in Bolivia, where I was so lucky to be warmly greeted and welcomed, and where I've felt such a home and friendship for more than two decades now. Since the work in Bolivia I've had the opportunity to work in all parts of our hemisphere on the challenges of economic development, disease control, and all that goes with it. So for me, while in the last few years I've been focusing more on what is the most urgent problem on our planet, and that is the life-and-death struggle in Africa of millions of people dying of diseases and dying of mass hunger right now, it is wonderful for me to be back among so many friends and colleagues

from past years, and I hope that it means a relationship that continues for many years to come.

I can tell you, certainly from the perspective of the work that I've been called upon to do for the Secretary General of the United Nations, that in so many ways, Latin America is a blessed region, especially when you see the terrible disease burdens in Africa—the life expectancy as low as 40 years, the massive AIDS pandemic, the drought and hunger that afflict so much of that continent, the extreme poverty. With all of the economic challenges that Latin America faces, it has so many wonderful strengths and achievements. We should keep those in perspective as well.

Latin America is a region today of great political stability, though not uniformly or exactly where one would hope. It's a region where life expectancy tends to be 70 years or higher, though that draws our attention to Haiti and some other pockets of extreme poverty that we need to pull our full forces together to address. Basic challenges that are still being fought in Africa, for example, of children's education, of mass literacy, and of access to safe drinking water, have largely been won throughout the continent. That's not to diminish the remaining challenges in some places, but to say that the baselines that we're discussing are, fortunately, baselines well above the minimum, baselines where current conditions are in many ways strong, particularly in health, for example, and in many ways even above what the statistics on economics show, because this is a region where measured incomes are

sometimes low but quality of life is often even higher than is seen. I think that that's a point to keep in mind.

I believe that it's important to remember all these accomplishments, including what I've observed over the 20 years of my own engagement in this region. When I began in July 1985 in Bolivia, virtually the entire region was still under military rule or was in a very fragile process of transition. There was active war underway in places like Central America, which is now a region of solid democracies. That is a great achievement. I think it is important to keep that backdrop in mind.

But it is also a region where there are issues that I believe continue to challenge us despite the political improvements, in terms of economic growth, advances in disease control, and literacy.

Second, this is the region of the world that almost defines inequality, because these were societies that were forged in the crucible of violence and inequality itself. All of the Americas in some ways are conquest societies, after all. The challenge of uniting and bringing together indigenous populations, former slave populations, and conquering European populations has been half a millennium of history. I think the Americas are unique in this, because everywhere the terrible tragedies that were faced by the indigenous peoples of this hemisphere have not yet been solved, even 500 years after the Columbian 'incursion.'

This is a region that, because of its history, has more work to do in bringing together ethnicities, races, backgrounds, and cultures than probably any other part of the world. For much of the history, this has not happened successfully. I think it's only in the rise of democracy that we see hope for the resolution of these fundamental issues, because so much of the history of this region was using power to repress popular demands by majorities—not just minorities—but by impoverished majorities of indigenous or black populations in the face of vastly unequal power and political roles. This, I think, is finally changing in our generation, but it still remains the major challenge.

This is not just a Latin American problem; this is a United States problem, full-fledged, in the same way. The proportions are somewhat different, but the challenge of the indigenous populations of the United States, of the former slave populations of the United States, is the same challenge. This is an Americas-wide phenomenon, with the exceptions of the highest latitudes, perhaps, in the north. I was going to say in the south, but that's not quite true; in the south it was the same story in different ways.

The third aspect that I would point to as unsolved is the relationship of the people to the physical environment and all that that entails. This is an unsolved challenge in every part of the world, by the way. Don't let anyone convince you for a moment that our world is on a path of sustainable development—it isn't yet. It's not impossible that we get on one, but we are changing the climate, tearing down rainforests, depleting fisheries, poisoning the physical

environment, and experiencing increasing environmental shocks. This is a region that is definitely right in the center of those blows.

Hurricane Katrina was a tragic eye-opener for the United States as a Category Five hurricane, but this kind of shock is the daily life and reality of the Caribbean and Central America, which has lived with these kinds of upheavals--one could add seismic upheavals to the tropical storm upheavals--throughout its history. The entire region of Central America and the Caribbean is in zones of multiple hazards: zones of hurricane hazards, seismic hazards, earthquakes, volcanoes, you name it. This has been part of the very history of the region.

But now the environment challenges us everywhere. The high temperatures of the sea surface in the Caribbean were the proximate reason for the massive drought taking place in the Amazon now. This is a basic climatological process by which the warm air rising over the heated Caribbean Sea leads to descending dry air over the Amazon, with potentially disastrous ecological consequences for both sides of that divide: increasing hurricane activity in the Caribbean and increasing drought and destruction in the Amazon, which is one of the great heritages and common needs and treasures on the planet.

It's my view, having experienced ground realities in all continents of the world save Antarctica, that with all of the great accomplishments, and with a quality of life that I would insist is above even the measured statistics, these three challenges of economic stagnation,

inequality, and shocks from the human ecological interface are the great unmet challenges of a continent that has so much potential to successfully face those challenges.

Now let me say a few words about some of the pathways ahead. I was asked as I was coming in if I could provide a crystal ball. The answer is “no”; of course I can’t. I can only provide a few hints of what I think are ways forward. They may be, unfortunately, so platitudinous that they won’t be very helpful, but I’m going to try to address these three areas—stagnation, inequality, and the natural hazards and shocks—in the context of the Americas.

First, stagnation. So much has been said, hundreds of books, tens of thousands of articles and words spilled on the Latin American economic crisis. I hardly dare say or even believe that one could say a fresh word, but I’m going to just try to put my focus on one element of this debate that I think is important.

There’s been tremendous attention to institutions, to governance, to economic institutions, rule of law, land title, and so forth as the essential issue making markets work. I think that there’s been some truth to that focus, but I have always felt that it missed part of the point of Latin America’s economic stagnation.

As I’ve mentioned to many of you on other occasions, my experience as advisor in Asia and in Latin America always left me with a powerful, overriding feeling. When I came

to Latin America, the issues were always about budgets, exchange rates, taxation, institutions, land title, and so on. When I went to Asia, it was always the discussion about technology, about the newest thing, about getting into information technology. How do we get into biotechnology? How do we get into whatever was the dominant leading edge of the world economy?

This, to me, has been one of the palpable differences between Latin America and Asia that has been underemphasized in all of the discussions. Latin America lost technological ground over a quarter century. It did not, in general, play a leading-edge role in the rise of the electronic sector, in the rise of biotechnology, in the rise of information technology. That's where we see Asia in the dominant position.

Latin America did, in some areas, improve technology, based on natural resources, which was always the usual home. While the growth in Chile, for example, has been a natural-resource-based growth, it has been natural-resource-based on the basis of improving technologies. When I go to the market, as I do every day, I buy fruit these days, and every single one of them has Chile on the sticker. Getting beautifully packed, high quality fresh peaches, plums, grapes, and so forth to markets here in the winter time, has been a large part of Chile's growth, thanks to high technology logistics.

Broadly speaking, Latin America did not adequately engage in the technology revolutions of the last twenty-five to thirty years. I see that as a fundamental part of why the

stagnation took hold. I've always felt that the IMF and the World Bank had the wrong models in this, that it was too much about market liberalization and stabilization and not enough about industrial policy to make this work. Industrial policy is not anti-market, it's pro-market if it's done right. No one wants an industrial policy of state-owned enterprises. What one wants is the public sector helping, through investments in science, higher education, basic infrastructure, tax holidays, or whatever other incentives, to bring in the technology that can be the cutting edge for the future. I would just say, in a nutshell, that this is part of what Latin America's future needs to be, more than it has been in the last quarter-century, and looking at the Ambassador from Brazil, I can say I believe that Brazil has turned the corner on this in an important way.

A good industrial policy must be technology-led and export-led. If you look at the Asian model, it's not protectionist industrial policy; it's international, competitiveness-led, technology-driven, industrial policy. It's selling embryos to the world; it's selling new fuel sources to the world; it's bringing the best of technology to bear on world markets. It's open and market-friendly, but it is industrial policy.

One indicator that I look at is the share of an economy devoted to research and development, investments in higher education, openness to and encouraging foreign investment in high technology areas, publications in global scientific journals, and patents being taken out. I see the beginnings of a dynamic approach here, especially in South America, led by Brazil. But I believe that this is a very important point for the future,

because the natural resources are giving a lift right now, but they cannot by themselves be the basis of long-term development, and they never have been. It's the brain power and the technology that count, and markets alone are not the way to develop that leadership. One needs markets working together with public investments and philanthropy for higher education, for science, and so forth, and that's a model that I see finally taking shape in the region.

Now this is actually related to inequality, the second theme that I mentioned. The biggest issue of inequality is that the rich and the powerful don't so much like to invest in the poor and unpowerful. This is the dominant fact of the Americas, including the United States, which has the lowest social spending of any advanced industrial economy by far. We're the only high-income country in the world that leaves 40 million people without health insurance. It's unheard of in Europe. It results, in my view, from the heterogeneity of our societies, and there's a lot of evidence for that proposition. Places of racial and ethnic inequality tend to have lower public investment levels. If I could put it very crudely, white people have not always liked to invest in the health and education of black people or indigenous populations.

I believe that this is changing decisively in our generation. I really believe it, and I feel much more optimistic about it because I think the days when a small elite could use power to maintain influence are over. They can see that it can't conceivably work because the traditional forms of wealth and power don't matter any more. What matters is the

dynamism and vigor of one's society, and if the society is illiterate and uneducated, there's no chance that an elite has any future there. And so I think that the rise of democracy provides a push from below, and the lessons of the world provide a lot of guidance that inequality can be overcome by investing in every human being in every society. This is the great turning point for the region because what's going to happen, I believe, is a massive increase in educational and scientific attainment for the region, with democracy paving the way.

I'd like to turn again to the example of Brazil, because Brazil, by being by far the largest economy of the region, is so important for the entire region's future. Brazil now has had more than a decade of a dramatic increase in secondary education. This is why I believe there has been a fundamental turning point. Back in the 1980s, maybe only 15 or 20 percent of the population actually finished secondary education. Enrollment rates were extraordinarily low. Now two presidents in a row, Fernando Henrique Cardoso and President Lula, have made major investments in secondary education and have increased investments in higher education across race, across ethnicity, and across regions. That is the change that is fundamental to overcoming the longer term inequalities in the region. I believe we're turning the corner on this.

I think it's important because I read papers, even books that ask: What is the source of Latin America's inequality? Why is it the highest inequality in the world? As if this is a mystery! These are societies that were born in inequality. These were societies where the

entire political and social structure was developed in inequality. But democracy is changing this, and in my view decisively and historically, not just for the better, but for the best.

So I believe that this is the way forward, and ensuring investment in human capital is the most reliable, most definitive manner of reducing inequality over the long term in a modern society. It's making sure that every child grows up with basic health, with basic nutrition, and with an opportunity, not just for primary education in the twenty-first century, but all the way through university education to develop skills, knowledge, scientific capacity, and artistic capacity to their full extent. That's what will end the inequality that has so dogged this region for so long, and I believe that it's on its way to basic change. I believe that the election of indigenous leaders in the Andes is part of this democratization process that we should be championing and that we should be extremely thrilled about, because this is part of the long-term true democracy that is going to make for strong, vibrant societies.

Now the third theme is shocks. When you look at the region, the geographic, ecological heterogeneity is clear as well. Like all parts of the world, the Americas live on their physical geography as much as anything else. The Caribbean has its realities. Central America, as a volcanic spine beset by hurricanes regularly, by these earthquakes and seismological shocks, has its reality. The shocks of the El Niño on the western side of South America, the massive fluctuations which are defined actually off the coasts of Ecuador and Peru, are realities whose importance are actually underestimated.

I remember working in Ecuador in 1998, watching a government go over the cliff in a way, a government that fell from power, in the end, in a coup. Why did that happen? Well, there were many political theories, but the starting point was the ferocious El Niño of that year, which led to torrential rains, destroyed the crops in coastal Ecuador, brought about a banking crisis, brought, I think, not the greatest policies in response-- although these are hard situations-- and it led to financial collapse and a downward spiral. I would put El Niño, not the politics, as the first protagonist in this. This is true of Hurricane Mitch. This is true of so many of the shocks to a Caribbean that, every time it rebuilds, is flattened again by natural hazards and by a situation that looks to be getting more dire. This is happening partly because the rich world, and my own country first and foremost, which is contributing so fundamentally to what's called anthropogenic climate change—a cause of more intense hurricanes—has not faced up to its international responsibilities in this regard. We have to address these shocks in every way we can.

First we have to understand we're in the middle of long-term climate change. This isn't an issue where we can say this is only for our children and our grandchildren. Ladies and gentlemen, this is for us, now. It's happening. The question isn't *if* climate change will occur if we don't change; we're in the middle of climate change. It's causing droughts in the Amazon. It's causing more intense hurricanes. It's going to have tremendous effects on our lives and livelihoods.

We have to get ready for that. We have to head off worse to come by being more responsible, recognizing the truth of anthropogenic change and facing up to it, and understanding how we need to adapt and how we need to mitigate these changes in the future. And we need to be very clever about it-- more clever than we've been so far.

For example, last week the World Food Program, which is the international agency responsible for emergency food relief, entered into quite an ingenious insurance contract on rainfall that will give some insurance to this UN agency. When drought hits some of its 'client' countries, there will be extra money available for emergency relief. In other words, financial engineering is one way, in the face of these kinds of shocks, to move much farther along. The vast majority of the poor have absolutely no insurance against the buffeting shocks that they face in the Caribbean, or in Central America, or in other parts of the Americas. I would think that if we put our best financial minds to work, if we brought in the private sector, if we brought in the public sector, if we thought hard about these kinds of disturbances and shocks, we could actually do a lot to provide for security even if we don't, in the short term, have the ability to turn off the natural forces themselves. Over the longer term, we really can deflect some of these forces and have to do so.

We also face mammoth challenges of combining development and environmental sustainability. I won't go long on this point, which is known. How to develop the Amazon region? How to integrate Brazil, the Southern Cone, and the Andean countries with infrastructure in a way that protects the Amazon, which is not only Brazil; remember, it's all

of the countries combined. How can we do this in an environmentally, ecologically sound manner?

I'm a big believer in the energy integration that Brazil and its neighbors are proposing right now. I'd like to see how these pipelines can be laid in a manner that protects the rainforest and doesn't disturb it, how minimally invasive actions can be taken, but these are very big challenges for us to face up to, not to ignore. Development does need to go on, but we need to understand how to do it compatibly with economic development.

Let me spend some time on a topic very dear to my heart: the country that faces the biggest challenge in our region—Haiti. It is by far the poorest and least stable country in the region. It's a country so bereft of basic infrastructure, basic health, basic access to safe drinking water, soils that are adequate for farming, and sustainable ecology that we should put this challenge at the top of our list. It's not the biggest in quantity. It's not the biggest in numbers affected. It's not the longest term of the challenges, but I always like to start with the most urgent challenge, and the poorest of the poor are the most urgent challenges on the planet. Haiti is the poorest of the poor in our own region.

Haiti has just elected a new government. This is the time, finally, to honor lots of promises unfulfilled for generations to help turn the tide historically in this country. For every military occupation, for every suspension of democracy, for every turn of government, almost nothing has been left behind for the Haitian people themselves. The roads out of

Port-au-Prince are paved for a few hundred meters until you get to nearly impassable roads into the interior of the country. In the interior, I won't even call them roads, because a car or truck can hardly manage. A bicycle can hardly manage.

Now I know, as a development economist, that these are solvable problems that have not been solved. What they require more than anything else is goodwill and investment, investment in meeting the basic needs of the poorest of the poor, to build roads, to replenish soils, to replant trees, to ensure clinics are available, to face up to AIDS, which is at epidemic proportions in the country, and to recreate enough infrastructure so that there can be jobs again in Haiti. Can anybody doubt why there's instability when there are no jobs? Can anybody doubt that 20 years of on-again, off-again aid destroyed the export processing zones, the capacity for jobs that were beginning to be created in the 1980s and that had disappeared by the 1990s? So I want to take the opportunity with you today, ambassadors, to appeal that this time, finally, we get it right. It's not a lot of money in the scheme of things. It requires our attention.

I was in a congressional hearing after Mr. Aristide left office in which I heard U.S. congressmen proclaim their deep dedication and commitment to Haiti. I haven't seen it show up in the numbers yet. I'm all for it, and I hope that they mean it and I suppose that they do. I have no reason to doubt it. Now is the moment to turn such words, into real—and long promised-- action. I believe that now is the time for the OAS, which has played such a vital role, under harrowing conditions, in getting the elections done, to really help to lead the way

to solve these problems more fundamentally, with a newly elected President who has a mandate in office.

I have to tell you that I'm a great optimist for this region. I hope that I've explained that, as big as the challenges are, I actually believe in a fundamental way, that democratization is really the leading edge of a full transformation for this region. In a region of inequality, democracy now promises that everybody can count. I know as an economist that when everybody has the investments in health and education and the opportunities, technology, scientific leadership, and international competitiveness will be possible.

There is no more beautiful part of the world than the Americas. There are no more wonderful cultures. This is the great heritage of three societies having come together to create the most marvelous cultural diversity and shared heritage that we can find in the world, and I know that everything stands for a bright future for these reasons.

Thank you very much.