

**THE FRANK E. SEIDMAN
DISTINGUISHED AWARD IN POLITICAL ECONOMY**

**Meeting of Board of Trustees
Madison Hotel, Washington, D.C.
February 15, 1991
and
Award Proceedings for 1991**

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1991 Selection Committee

ALAN S. BLINDER

Gordon S. Rentschler
Memorial Professor of Economics,
Chairman, Department of Economics,
Princeton University
Princeton, New Jersey

A.J. KONDONASSIS

President, International Executive Board
National Economics Honor Society
David Ross Boyd Professor of Economics,
The University of Oklahoma
Norman, Oklahoma

FRANCO MODIGLIANI

Nobel Laureate in Economics
Institute Professor Emeritus,
Massachusetts Institute of Technology

PAUL CRAIG ROBERTS

Professor, Political Economy
Center for Strategic and International Studies,
Georgetown University
Washington, D.C.

AMARTYA SEN

1986 Award Recipient
Lamont University Professor,
Harvard University
Cambridge, Massachusetts

**Minutes
Board of Trustees Meeting
The Frank E. Seidman Distinguished Award
in Political Economy
Friday, February 15, 1991
The Madison Hotel
Washington, D.C.**

The meeting was called to order at 9:14 a.m. by P.K. Seidman, Chairman Emeritus, serving in the absence of Lawrence J. Seidman, who was unable to attend. In attendance were Board Members P.K. Seidman, Richard Gillett, John Planchon, Robert Eisner, Paul McCracken, James Daughdrill, Jr., and Director Mel G. Grinspan. Special guests were A.J. Kondonassis, Acting Chair of the Selection Committee; Marcia Condo, trustee of P.K. Seidman Foundation; E. Beth Seidman Smetana and her husband, Gerard Smetana.

P.K. Seidman explained that Mrs. Smetana, the daughter of Lawrence J. Seidman, was present as an observer who was second in the line of successors as Seidman family representatives to the Award Board. The first in line, after Lawrence J. Seidman, is L. William Seidman who was unable to attend the meeting. The present family representative is Lawrence J. Seidman who was also unable to attend the meeting.

The acting Chairman then asked the Board to act on the election of the Chairman for 1992. Lawrence J. Seidman was nominated. It was moved and seconded that he be unanimously elected. Motion passed. The Chairman then asked if there were any corrections or additions to the minutes of the last Board meeting. There being none, those minutes were accepted by the Board as submitted.

The next matter discussed was the financial status of the Award program. P.K. Seidman reported that the corpus in the P.K. Seidman Trust, which funds the program, had been decreased in the past several months because of the downturn in

the investment markets; however, recovery had taken place in recent weeks because of the favorable market conditions. He also reported that some additional funds had been added to the Trust this past year and reminded the Board, that upon his death, the residue of his estate would be added to the Award's trust to help assure its continuation.

In reporting on the operational budget of the Award, Mr. Grinspan referred the Board to the financial report. It was noted that expenditures for the year 1990 were approximately \$3000.00 less than the \$39,100.00 which had been originally budgeted.

The Chairman then called for a report of the Selection Committee by Dr. A.J. Kondonassis, acting in behalf of Dr. Amartya Sen, Chairman of the committee who was unable to be present because of illness. Dr. Kondonassis presented the following names in order of the committee's preference: Jeffrey Sachs, Douglass North and Arnold Harberger.

Dr. Kondonassis said that the Committee had reviewed the data on 108 nominees submitted by economists from all over the world. Through a process of gradual elimination, the list of candidates was gradually reduced to ten at which time each was discussed in detail as to his or her qualifications for the Award based on the Award's criteria and objectives. This list was further reduced to five, and then to the three whose names appear above. Dr. Kondonassis emphasized that the selection process was, in his opinion, thorough in every respect and represented the deeply considered judgment of the Selection Committee members present as well as the detailed opinions of the absent Chair, Amartya Sen, who had requested Franco Modigliani and Mel G. Grinspan to convey his thoughts to the Committee. After a discussion the Board voted to receive the Selection Committee's report as submitted and to then discuss it in detail.

Dr. Kondonassis reviewed the deliberations of the Committee on each of the names submitted and answered the questions of the Board regarding the nominees. He discussed their qualifications, their contributions, and how each measured up to the Award's criteria and objectives. Following a lengthy discussion, the Board unanimously voted to name Jeffrey Sachs the recipient of the 1991 Award. In the event that Dr. Sachs chose not to, or was unable to accept the Award, it would then be bestowed upon Douglass North. If he would not nor was unable to accept it, it would then be bestowed upon Arnold Harberger. Upon completion of the action on the naming of the recipient, the Chairman authorize the Director to contact Dr. Sachs to advise him of his selection and to determine his acceptance of the Award. Mr. Grinspan then left the meeting to contact Dr. Sachs via the telephone. He returned to the meeting to announce the Dr. Sachs had been contacted and that he enthusiastically accepted the Award. The Chairman then cautioned those in attendance that the entire matter was to be handled in confidence until the official announcement was to be made sometime in the month of April, 1991.

The Acting Chairman then called upon Mr. Grinspan to discuss another matter brought before the Selection Committee. That pertained to the present and future status of the Award program. Mr. Grinspan reported that there had been some informal discussion amongst some Board members about continuing to bestow the Award annually and that perhaps some consideration should be devoted to giving the Award every two years. It was the strong opinion of the Committee that the present plan not be changed and that if it were, it would lose the momentum of the increasing recognition and prestige it was accumulating as an annual Award. Discussion was also devoted to the benefits of increasing the monetary value of the Award, a possibility which would be considered if the Award were to be made every

two years. The consensus was also against this concept because there was general agreement that increasing the dollar value of the Award only nominally would add very little additional prestige to the Award.

In a discussion by the Board on what steps can be taken to continue to enhance the Awards recognition, suggestions were made to include names of recipients on the Award letter head, to obtain news coverage of the Award in the Notes section of the publication of the American Economic Association and other similar economic publications, to circulate bulletins to colleges and universities announcing the names of the recipients.

Some discussion then followed on the advisability of moving the date of the Award banquet to February 22, 1991 in honor of the anniversary of the 100th birthday of Frank E. Seidman whose memory the Award honors. It was decided that, though the idea had much merit, the realities of date conflict with other activities and would make it difficult to work out.

Mr. Grinspan then presented to the Board a letter of resignation from Dr. Kurt Flexner, Consultant to the Board. Dr. Flexner expressed much regret at his decision to resign, but felt it necessary to do in the face of other obligations. P.K. Seidman reminded the Board that Dr. Flexner had been an important part of the Award program since its inception. Upon a motion of Dr. McCracken, the Board accepted the resignation of Dr. Flexner with regret and authorized the Director to send a letter to Dr. Flexner advising him that the Board had accepted his resignation and thanking him for his service to the Board.

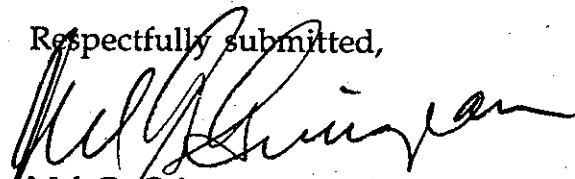
The next subject on the agenda was the suggestions on the criteria and objectives for the Award as submitted by Dr. James Tobin, a former member of the Selection Committee and one who has long had a close association with the Award. Mr.

Grinspan advised the Board that, if there were no objections he would send each member a copy of Dr. Tobin's suggestions with a request that they be perused and returned to the Director with any additional suggestions or recommendations. All the data would then be studied and organized for resubmission to the Board for its additional meetings. There were no objections and the above procedure will be followed.

Dr. Daughdrill asked the Chairman if he could take a few minutes to bring the Board up to date on some of the activities of Rhodes College, the home of the Award's administration. With the Chairman's approval, Dr. Daughdrill advised the Board of the near completion of Buckman Hall, a new facility which will house several of the College's academic departments and other services. In addition, and very importantly, would be the establishment of the new Chair in Political Economy which would honor and be named for P.K. Seidman. Dr. Daughdrill further advised the Board that a search is now underway to find the most highly qualified person available to fill the chair. P.K. Seidman thanked Dr. Daughdrill for this remarks and added that the new Buckman Hall would also include a J.S. Seidman Assembly Hall to honor the memory of another brother and partner of P.K. Seidman's.

The acting Chairman asked if there were any further business to come before the Board. There being none, he asked for a motion for adjournment. The motion was made and passed.

Respectfully submitted,



Mel G. Grinspan
Director

**The Frank E. Seidman Distinguished
Award in Political Economy**

Budgetary Data for Fiscal 1990-1991

	<u>Budget 1991</u>	<u>Actual 1991</u>	<u>+ or -</u>	<u>Budget 1992</u>
Travel/hotel	\$ 15,000.00	\$ 17,522.00 ¹	\$ -2,522.00	\$ 15,000.00
Telephone	100.00	86.00	-14.00	100.00
Supplies	100.00	64.00	-36.00	100.00
Postage	950.00	1,204.00 ²	+254.00	1,200.00
Printing	3800.00	3,800.00	---	4,000.00
Miscellaneous	400.00	80.00	-320.00	200.00
Honoraria	17,000.00	17,000.00	---	17,000.00
Banquet	<u>2,000.00</u>	<u>1618.00</u> ³	<u>-382.00</u>	<u>2,000.00</u>
TOTAL	\$ 39,350.00	\$ 41,374.00	\$ +2,024.00	\$ 39,600.00

¹ Unanticipated Sachs family expenses and post-banquet dinner

² Increase in postage rates plus additional mailing

³ Result of Economic Club agreement

P. K. SELMAN TRUST *

**FINANCIAL STATEMENT
DECEMBER 31, 1990**

Portfolio	TOTAL (a)		AWARD		LECTURE		GENERAL	
	Corpus (b)	Est. Income	Corpus	Est. Income	Corpus	Est. Income	Corpus	Est. Income
Money Fund	73 083	5 630	50 962	3 926	17 661	1 360	4 460	344
Corporate Bonds & Notes	238 561	35 663	164 645	25 271	14 273	1 800	59 643	8 592
Equity Mutual Funds	56 525	6 977	23 800	2 938			32 725	4 039
Common Stock & Equiv.	88 219	3 611	81 783	3 216	1 838	250	4 598	145
Insurance Policies (c)	<u>2</u>	-					<u>2</u>	
Balances	<u>456 390</u>	<u>51 881</u>	<u>321 190</u>	<u>35 351</u>	<u>33 772</u>	<u>3 410</u>	<u>101 428</u>	<u>13 120</u>

* Trustees - National Bank of Commerce (Memphis), P.K.S., and Marcia Condo.

(a) Total available for Award program but Award funds cannot be used for other sections.

(b) Corpus at market price December 31, 1990.

(c) Policies on PKS for \$25,000 and \$2,000.

The Frank E. Seidman Distinguished
Award in Political Economy

Banquet
Memphis Country Club
September 26, 1991

Dr. Daughdrill

Good evening and welcome. I'm Jim Daughdrill, I'm President of Rhodes College and I'm delighted to welcome you to the 18th annual presentation of the Frank E. Seidman Distinguished Award in Political Economy.

The Award that we bestow this evening holds a place of international distinction in the world of economics. The roster of Award recipients that you see listed in your program is a veritable "who's who" in the world of economics. And let me remind you or tell you if you did not know that four of these Seidman Award recipients were later named Nobel Laureates. We were the first to recognize their genius but certainly not the last. We are proud of the Frank E. Seidman Award, that it was born and bred in Memphis, and that it has brought international attention to our city. But most of all we are proud of the person who has given it life. For his countless contributions that he has made to Memphis and to Rhodes, please join me in thanking the man with the white carnation, Mr. P.K. Seidman. We can't get him to sit at the head table but at least I can ask him to stand up. We are especially delighted that P.K.'s sister-in-law Mrs. Jan Seidman is here this evening from New York and we welcome you, Jan.

Now than I would like to introduce some of the people at the head table, others at the head table will be introduced later. To your left is an honored friend of Rhodes College, a former Postmaster General of the United States, former President of the U.S. Chamber of Commerce, Chairman of Blount Incorporated, the Distinguished

Chair of the Board of Trustees of Rhodes College, Mr. Winton M. Blount. Next, Mrs. Linda Shea, a former Miss America, wife of the Chairman of the Economics Club of Memphis. The next person will be introduced later. Next our special guest, the wife of our honoree, Dr. Sonia Ehrlich. On your right, is the glue and the heart and the love of the Daughdrill family, my wife, Libby Daughdrill. The person seated next to her will be introduced later. Next the wife of the Distinguished Chair of the Board of Trustees of Rhodes, from Montgomery, Alabama, Mrs. Carolyn Blount. The next person is a developmental economist and lecturer at Kings College Cambridge University, Professor Emma Rothschild, Mrs. Amartya Sen. Of course, our honorand will be introduced in a few minutes.

We regret that Mr. Lawrence J. Seidman, Chairman of the Award Board of Trustees and his wife Ann could not be with us this evening, but tonight for the first time in the history of the Award, we are honored to have with us the entire family of our Award recipient. Please join me in welcoming Dr. Sachs' daughter and son, Lisa and Adam. Dr. Sachs' mother and father are here, Mr. and Mrs. Theodore Sachs. And proud parents-in-law, Dr. and Mrs. Walter Ehrlich. Dr. Ehrlich is a retired distinguished professor of cardiology at Johns Hopkins. A special welcome too to the President of Omicron Delta Epsilon, the international honorary economic society. He is an economics professor at the University of Oklahoma, and a member of the Award Selection Committee, Professor A.J. Kondonassis.

I would also like to introduce several colleagues at Rhodes. First, the Chair of our Department of Economics and Business Administration, Dr. John Planchon. Rhodes Dean of Academic Affairs, Dr. Harmon Dunathan. The distinguished Executive Vice-President of Rhodes College, Mr. David Harlow. A person who has worked for many years very hard for the success of the Award, you know it's an all

year round activity, and a person who has helped host the recipients and their families that they might feel welcomed and at home in Memphis is a person that we are all grateful to, Mrs. Sally Grinspan. And of course the one person, without whom the Award program simply would not be, the Director of the Seidman Award program, Professor Mel Grinspan.

As you know one of the co-hosts of the banquet this evening is the Economics Club of Memphis. To greet you on behalf of the Club, I'm delighted to call on it's chairman, Dr. John Shea.

Dr. John Shea

Thank you, Jim. I'd to say that it is a great honor to be here this evening and to welcome you on behalf of the Economics Club of Memphis (who is also meeting here tonight). I just wish that all of our meetings were so well attended and that everybody dressed up and brought their wives and had such a good time. But nevertheless, this Club is very happy to be here and to be co-host with you on this wonderful evening. Before I stop I'd like to mention a person without which there would not be an Economics Club of Memphis and that is our dear friend and founder of this Club and guiding light for many years of it, who is this evening celebrating his 75th birthday. Kurt Flexner would you stand up and received this welcome. And as is the custom here, I've been made to realize this, his wife is here also, Josephine will you stand up. The Club is very happy to be here as co-host of this evening and I am looking forward to hearing what Dr. Sachs is going to say.

Dr. Daughdrill

It is a particular pleasure now to welcome the person who will make the Award

presentation, for he himself was the 1986 recipient of the Seidman Award. Dr. Amartya Sen's work has a profound and continuing influence on economic thought. He is an honorary fellow of the London school of Economics and of the Institute of Social Studies at the Hague. He is honorary professor of India's Delhi University and former holder of the Drummond Chair of Economics at Oxford University, in fact he was in that position when he came to Memphis the first time to receive the Award. That is the oldest Chair of Economics in the world. He is currently a Lamont University Professor in Economics and Philosophy at Harvard University, and Chair of the 1991 Frank E. Seidman Award Selection Committee.

Ladies and Gentlemen, Dr. Amartya Sen.

Dr. Amartya Sen

President Daughdrill, Chairman Blount, Mr. P.K. Seidman, Professor Grinspan, Dr. Shea, Ladies and Gentlemen. I'd first like to say how delighted I am to be back here, it is absolutely wonderful to come back to this great occasion . I am also feel very proud and honored to have the opportunity of making the presentation this year.

Jeffrey Sachs has not quite followed Henry Wadsworth Longfellow's vision of a good life: I quote, "Let us, then be up and doing,/With a heart for any fate;/ Still achieving, still pursuing,/ Learn to labor and to wait." There has been no shortage of "labor", nor any of "pursuing" and "achieving", in Sachs' life, but waiting has not been a particularly Sachsian virtue. He rushed through his studies rapidly, achieved a formidable academic reputation remarkably early, and when Harvard appointed him to a full Professorship at the tender age of 29, that University could almost be accused of harbouring child labour, if not cradle-snatching.

At the age of 32, Sachs was advising the President of Bolivia on how to curb their

inflation rate of 40,000 per cent per year. It did fall to a more tenable 15% soon enough. Within a few years of that, Jeffrey Sachs produced a major study of the Third World debt problem in a 4-volume definitive work for the National Bureau of Economic Research. He then proceeded to help transform the economy of Poland (sponsored recently by the World Institute of Development Economics Research), and to give powerful advice to the political leaders of many lands, including Yugoslavia, Slovenia and Mongolia, and of course to Boris Yeltsin of Russia. He has developed a remarkable specialist expertise in helping centrally planned economies to marketize.

Sachs's advisory work is characterized by optimism, confidence and determination. There is an old game, which we used to play in school, that takes the form of having to decide which literary character least resembles a particular person. If that game were to be played with the dynamic and determined Jeffrey Sachs, a natural contrast would have been with Hamlet. Not for Jeffrey any "To be, or not to be". Rather, "To be, or definitely to be".

Jeffrey Sachs was born in 1954 in Detroit, Michigan - and of course I am delighted that his parents are here tonight. He married his Harvard classmate Dr. Sonia Ehrlich, a skilled and much-admired pediatrician, who is also present here (as are her parents). His student career at Harvard was brilliant and rapid, and after establishing his mark as a splendid economic theorist, Sachs soon developed a major reputation as an applied economist. His first book, Economics of Worldwide Stagflation, published in 1985, was written jointly with Dr. Michael Bruno, who was later the architect of inflation control in Israel and went on to become the Governor of the Bank of Israel. Their analysis of stagflation - that is the combined occurrence of stagnation and inflation - threw a good deal of light on the general nature of that

least and also on the economic problems actually faced by many industrial countries.

In this work as well as in others (including his studies of Third World debt and radical economic reform), Sachs has shown a remarkable combination of good economic reasoning with excellent use of empirical understanding and common sense. The combination of analytical reach and sound common sense is, we have to admit, relatively rare in economics. In fact, in 1904, no less an economist than Alfred Marshall, one of the founders of modern economics, had complained in a letter to Knut Wicksell, another pioneer, that a newly arrived student at Cambridge (that is Cambridge, England) had offended Marshall by telling him, I quote, "the founders of Economics of all nations were inferior in common sense to most children of ten." That was, I must admit, a slight exaggeration, but the ability to make intelligent use of common sense without losing sight of the lessons of economic theory is indeed a remarkably uncommon ability, and Sachs has proved himself to be a master of this genre of analysis. It is a great tribute to Jeffrey standing as an economist that his expertise is so widely sought in practical work across the globe.

In his work on Third World debt problems, Jeffrey Sachs was particularly critical of the negative effects of the influence of commercial interest groups (including U.S. banks) on public policy. In a well publicized newspaper interview, Sachs had once accused even James Baker at the treasury of being, I quote, "mainly attuned to the interests of U.S. commercial banks". In his present work his main adversaries have been state bureaucracies. He has been fearless in his criticism of what he has seen as the evil effects of vested interests, and assured and poised in his proposals to do away with those evils. His style of presentation is tremendously focused, identifying

the principal enemy and going at it with hard-hitting aplomb.

There is an interesting story in the ancient Indian epic Mahabharata, in which five brothers are tested for their skill in archery. The teacher asks each in turn to aim his arrow at the neck of a bird and then asks each in turn what he can see. While four of the five brothers describe the bird and the tree, Arjuna the great warrior - and the main hero of the epic - says that he cannot describe anything other than the neck of the bird because he cannot see anything else whatsoever. The winning prize is, then, awarded to Arjuna without a single arrow being shot. Jeffrey Sachs has something of that quality of concentration and focus in his present imperative work on marketization of centralized economies. He is not to be deflected from the main target by the complexities of the over-all picture. This is clearly an important ingredient of Sachs' success as a practical activist and a radical reformer.

When at leisure Jeffrey writes about all this, as he must do at some stage, I don't doubt that we would get from him a much broader analysis - with some account of the tree and of the other features of the bird as well. I mention this since the temptation to expect the same kind of diversity and catholicity in Sachs' counseling work as we find in his academic writing is bound to be disappointed.

We shall all await Jeffrey Sachs' more academic and more rounded analysis of the challenges of institutional reform. But meanwhile we can express our admiration for what we have already received so plentifully from him. We honor today the creative and innovative author of many significant contributions in political economy, all achieved in remarkably few years. It gives me great pleasure to be able to hand over to Jeffrey Sachs the much-deserved Frank E. Seidman Distinguished Award in Political Economy. And I will read the citation now: "The Board of

Trustees and Rhodes College bestows upon Jeffrey Sachs this International Award in recognition of your incisive analysis of contemporary socio-economic challenges, for your development and design of economic reform programs resulting from that analysis, for your research in and implementation of transition of central planning to market economy, the international debt crisis, and macroeconomic policy coordination; for your important contributions in aiding governments throughout the world toward the reconstruction and stabilization of their economic policies and programs; for your outstanding contribution to interdisciplinary scholarly research and for your efforts, in general, to improve the human condition. Granted this 26th day of September, in the year one thousand nineteen hundred and ninety one in Memphis, Tennessee."

Professor Jeffrey Sachs

Amartya, I am grateful, to you and Ladies and Gentlemen, Professor Daughdrill, Dr. Shea, Chairman Blount, members of the Seidman family. Ladies and Gentlemen, it is a very great honor for me to receive this Award. I am deeply touched by Professor Sen's eloquent words. I can tell you that, if on occasion, I and my colleagues are able to aim straight, it is in no small part due to Amartya Sen's guidance. He is not only a friend and a colleague, but a teacher, one of the world's great moral philosophers and great economists, and he keeps us honest and directed in the right direction. And I can tell you that while we don't, unfortunately, have that many occasions to meet, and fewer in Cambridge than we would like, his words of guidance are always of tremendous importance in my work.

Well, I am very much honored to be the recipient of the prize this year and I am especially grateful for the existence of this kind of prize, because I think that the

values of the Seidman Award, the expression of support for an interdisciplinary approach to economic problems and for spurring the use of economic science to be applied to pressing problems of public policy, expresses certainly the values that I hold most dear in my own work and that I find to be the greatest relevance for this profession.

I think that there is no more pressing problem perhaps that illustrates the hope and chance that economics can make a mark on improving the quality of life today than the dramatic transformations that are now underway in Eastern Europe and in the Soviet Union where to all of our surprise, amazement and lack of anticipation, the chance for hundreds of millions of people to regain their personal liberties, their human freedom and their economic freedom, has occurred so suddenly and now with so much hope. As you are aware, this is not only a moment of hope but a moment of very high drama, because opportunities have been bestowed upon these people and all of us collectively by the collapse of the most miserable system that we can remember of the Communist world. The chance to turn that opportunity into real achievement will require enormous fortitude of political leaders, enormous energy of populations to dig their way out rubble of societies buried by dogma of half a century in Eastern Europe - seventy-five years in the Soviet Union. And all the best intellectual effort we can bring to bare as economists, businessmen, lawyers, others, to help create a normal society again in these countries that have been so tragically cast out from the normal world for so long.

I'd like to spend a few minutes tonight talking about the progress that is being made in Eastern Europe and to use that to shed some light on the even greater drama perhaps of the Soviet Union; to ask the question, "what are the possibilities now that out of the collapse of communism, one can achieve the democratic society

and a market economy with the rising living standards for the peoples of the Soviet Union. I can't give you answers tonight, either for Eastern Europe or the Soviet Union. This is truly one of those issues, for which as they say, if you are not thoroughly confused, you just don't understand the problem. This is a problem of enormous complexity and great unpredictability in its outcome, even today. As I'll explain, I think the prospects for successful transformation in Eastern Europe are relatively good. The prospects for similar transformation, in most parts of the Soviet Union, must be regarded as extremely problematic and uncertain at the very best.

I first became involved with Poland in 1989, on the day that solidarity became legalized, a day that opened the new possibilities for that country in April, 1989. One saw at the point exactly what one is seeing in the case of the Soviet Union today, that the collapse of the old order did not simply leave a clean slate to start rebuilding, but it left in the wake turmoil and profound destabilization that threatened the very possibility of making forward progress.

As you remember in 1989, Solidarity won a dramatic election, the first of its kind in Eastern Europe in half a century, in June and after a Summer of turmoil, actually emerged with the Prime Ministership in August of 1989. The situation in August, 1989 in Poland is worth recalling because it does help us to understand not only the changes underway in Poland in Eastern Europe but also some of the most relevant issues for the Soviet Union today. In Poland in August 1989, when Prime Minister Mazowiecki took office, the shops were as empty as one finds in Moscow today. I remember vividly and distinctly seeing old ladies cue up at the butcher shops starting at 7:00 in the morning, waiting for the meat to be delivered and for the shops to open at 11:00 in the morning, so that they would have some chance of

getting something for that day. Seventy-year old women, eighty-year old women waiting for four hours, waiting with the hope that there might be a piece of sausage available.

The inflation at the same time was starting to explode as is true in the Soviet Union today. Inflation in August, 1989 had reached 30 percent per month, by October, 1989 it had reached 54 percent per month; that crosses the economists' official definition of hyperinflation, which is an inflation rate of 50 percent per month which accumulates for a year at a mere 13,000 percent. Poland had become the 15 country in world history, only the 15 in all known history, to breach that inflationary threshold.

The country was bankrupt with forty billion dollars of external debt, perhaps, at the time, the equivalent of 70 or 80 percent of national income, and no prospects for repayment; the country was without credit worthiness. The old system had collapsed to the point where taxes were not being collected, and where budget deficits were expanding to about 15 percent of gross national product, without the luxury which the U.S. has had of borrowing from Japan at the time. These were deficits fueling inflation because they were almost entirely financed by printing money.

To put it succinctly, the situation was well described by a cartoon that I remember seeing the day that Mazowiecki came into office, which showed an airplane crashing towards the Earth both jets aflame, inside you see Jaruzelski, the Communist President, walking backward in the cabin, carrying the steering column in his hand leaning over to Lech Walensa saying "Okay, you try to fly this thing!" That's pretty much how the Poles saw it and felt it in the Summer of 1989. It was a drama that from an economic and financial point of view certainly recalls well the turmoil that

one now sees in the Soviet Union.

The Poles were blessed with a Prime Minister that knew that fundamental action was needed with a brilliant finance minister, Leszek Balcerowicz, who was appointed to take over the economic mission and with a society that was united in a single basic principle, and that was that Poland's goal was to return to Europe. That the fall of communism gave Poland the opportunity to become normal. Where normal wasn't just an abstraction but was a very clear conception. Normal is what was seen in the West of Europe, and particularly in the European community. So you had a society that, at least in the most general terms, knew what it wanted. It wanted to become part of the normal mainstream of Europe, from which it had been torn away by communist domination after World War II.

In the whole economic saga is the implementation of that goal of returning to Europe. It's an attempt to find the strategy to become normal and to become normal in a very well defined sense. That is normal in a sense in which Poland could become harmonized and eventually a member indeed of the European community once again.

It's worth speaking briefly about what that strategy involves. In the most general sense, it involves trying to implement the institutions both political and economic of the Western European societies, Parliamentary democracy and market economy. Operationally from an economic point of view you can think about this transformation, this return to Europe as having three components. The first I would put under the rubric of Economic Liberalization, that is a very broad concept which basically means allowing markets or making markets operate. Making markets operate has two parts to it. One is letting go of central control and the other is working feverishly to establish a legal and administrative and financial

infrastructure of a market economy. Because the first thing you realize when you start to think about markets is that part of markets is the absence of bureaucratic control, but the other part is the deep legal structure which grew up in the course of centuries in the West, the commercial codes, the company law, the corporate law, the independent judiciary capable of enforcing contracts, bankruptcy law, the investment codes, and so forth, most of which were lacking in Eastern Europe or had been removed under the communist period.

Eastern Europe, it is important to remember under this rubric of liberalization, has one great advantage over the Soviet Union - they had had these codes in the interwar period. Poland simply restored, for example, the 1934 commercial code and put it back on the books, as the first and most direct way to get started in implementing a new structure of private property rights. So Economic liberalization is the first broad area of strategy, that means freeing prices, allowing markets to work, ending central planning, putting the legal structure in place, eliminating regulations on international trade so there could be free international exchange of goods and so forth.

The second goal that was absolutely pressing in the Polish context, and once again in the Soviet context, is Macroeconomics Stabilization. Markets cannot function in the context of hyperinflation. One needs a working price system that is relatively stable and predictable with a monetary system in which money can buy goods, in which goods are normally transacted rather than being transacted in illegal markets, or rationed by shortage in lines. And all of that required getting under control this explosive budget deficit which was fueling a hyperinflation. And it meant making the currency workable for international trade by giving it a realistic exchange value rather than the artificial and therefore unworkable exchange rate that the central

planners had assigned.

In August, 1989, the official value of the currency was about 1000 zloties per dollar, whereas the black market rate was about 10,000 zloties per dollar. And what this meant simply put is that if an exporter in Poland tried legally to export he would get 1/10th of the market value when he returned his foreign currency through the official channels and got the local currency for each dollar he had earned. It was a crippling system which basically committed the private sector to illegality and condemned it to the inability to grow, and inability of exports to develop.

The third component of transformation is Privatization, that is returning the property held by the state back to private hands. In Poland, as of the early 1980's, virtually all of the non-agricultural economy was in state ownership - 95% of industry. Agriculture in Poland as distinct from the rest of Eastern Europe and the Soviet Union of course, had remained largely privatized because the Polish peasantry had been able to resist the collectivization until Stalin's death, after which it became moot and was permanently avoided.

But for all of industry, distribution, banking (to the extent that one can say that Poland had a banking system), transport, construction, it was all under state ownership. And perhaps the greatest lesson was that what state ownership meant under the communist period was, of course, communist party control of resources, but what it meant in the period after the collapse of the communist party was nobody's ownership of resources. Almost a lawless free-for-all in which managers felt the ability to steal or abscond with state property in which workers had the freedom to bleed the enterprises of assets and income and in which one would search far and wide to find anybody in the country with normal incentive to operate

according to legal financial criteria. So the urgency of privatization was paramount if industry was to function well.

Now all of this was easy enough to develop as a broad agenda, but putting it into operation posed and continues to pose profound challenges of specific policy design. Where does one start, for example, in freeing up prices if the economy is riddled with monopolies, as the communist system is. Answers had to be found to such puzzles to be able to take a step forward, and the Poles at least had the experience of their own failed reforms during the communist period and of the continuing and profound economic failures of perestroika to know that small steps would not work and that one had to find the way out of the conundrums. What they decided to do was rather straight forward, and it came down to letting go at the beginning. Ending price controls, ending subsidies in a lean sweep on a single day, thereby not only eliminating shortages by allowing prices to operate according to supply and demand, but also cutting the budget deficit by about 14 percent of GNP in one day, and to do it on January, 1990 was no small feat. They realized, I think correctly and it has proven its point, that starting with a working monetary system and an end of shortages was fundamental, and instilling competition by opening the economy widely to international trade and creating a convertible currency from the starting point was a prime and achievable objective. What has Poland achieved? Since that dramatic start, from a situation of hyperinflation and chaos, Poland has restored stability; this August's inflation which was revealed this morning by the statistical office was 6/10 of 1 percent for the month, that's an annual rate of about 7 percent per year, that follows another month at the same rate, so the hyper-inflation has been decisively beaten. Shortages which had been chronic for decades were ended overnight, just as they been in Germany in 1948. Now not only were goods freely

available but the ability to engage in free trade has allowed the establishment in a mere one-and-a-half years of an almost entirely private economy for wholesale trade, retail trade, truck transport and now residential construction. There are about 500,000 new private businesses in Poland that have developed in the course of 18 months since the start of this reform. And this for a society where people had claimed erroneously that the spirit of entrepreneurship had been killed by the 45 years of socialism. In fact no such thing occurred and will never occur, it had just made people all the more hungry for profits and all the more eager to engage in free economic activity under their own authority.

But all is not well, even with these significant advances. Poland has still not accomplished the third pillar of the transformation, the one that is proving to be most difficult not only in Poland but in all of Eastern Europe and that is privatization of industry. This turns out to be a challenge both intellectual and political that is vastly greater than all of the rest of the challenges faced in the transformation. You can just imagine if all of the property of the U.S. were put up for grabs, that we would have quite a debate here before we were able to solve some of the problems of who should get what. There is nothing more urgent in Poland than to assign the property rights once again of all of this property, before the factories come crashing down through neglect, mismanagement, or even stealing and corruption. It is turning out to be of enormous difficulty to get clear progress in this area. Some has been made in the traditional methods of privatization which were widely favored by the international investment community selling the enterprises, as Margaret Thatcher had done in Britain, turned out to be completely inapplicable in the Eastern European context. Mrs. Thatcher who was the world champion of privatization in the 1980's succeeded in privatizing 50 state enterprises

in the United Kingdom. There are at current count 3,000 state industrial enterprises in Poland and 8,000 state enterprises in total and so that at the Thatcherite rate we are talking about a little over a millennium to get the job done. New methods have to be found. There are some which I have been advocating and other methods of freely distributing the shares of the enterprises back to the society by creating mutual funds and pension funds out of the state shares and then assigning the ownership of those funds to the households and the workers in the society. There is an intention to move forward on that, but no definitive progress to date.

All of this has been vastly complicated in the past year and a half by the utter collapse of the trade system that used to link Eastern Europe with the Soviet Union. Trade between Poland and the Soviet Union, which was the dominant trade until 5 years ago, has declined 90 percent in 1991 compared with 1990. This is largely the result of the complete collapse of the Soviet economy and the utter ineptitude of the governments in the Soviet Union, up to this date, in managing the most primitive and basic concepts of payment systems of international trade. When the old Barter system collapsed nothing was put in its place and therefore there has been almost no trade between the Soviet Union and Eastern Europe this year. Hundreds of large factories are going bankrupt, which is creating social turmoil, strikes and anxieties to levels that can hardly be imagined.

All of this is occurring, incidentally, in Poland in yet another election year; one of the lessons is that if you don't hold elections for 45 years you do nothing but hold elections for several years after that. After a tumultuous Presidential election in 1990 they are now having a tumultuous Parliamentary election in 1991. To end this story for Poland with somewhat of a question mark I would urge you to keep your eye on the elections on October 27. They are, I believe, the greatest test of the

economic strategy that is underway. You know an economic strategy that is wonderful on paper but can't win in the poles is worthless. So a strategy must have proven value by winning the public trust. The test of this ultimately will come in October. If the Poles elect a government that is reformist in temper, that continues with the strong measures and particularly that accelerates the privatization, I think that there is little doubt then, that with several years of a new democratic Parliament they will make it. The obvious energies of the Polish people, the abilities to create new business. To raise exports to the West by almost double of their level of three years ago shows the energy in that society. It must be harnessed by a system of property rights by a continuation of radical reforms that have started and the ultimate possibility of that will depend on the support of the Polish people and particularly in the elections at the end of October.

I believe, and of course must be optimistic, that these reforms will continue because as I said at the beginning, the core point for Poland and its truth for Czechoslovakia, for Hungary, for most of Eastern Europe is that they know one thing: where they want to be and this is a great gift for society, to be unified at least in the basic principles of where to go.

Now this is all prelude in some sense for what for us from a security point of view must be considered an even greater drama and that is, what are the possibilities of similar transformation, peaceful change in the Soviet Union or as my wife calls it the Soviet dis-Union, since we are not sure what to call it at this point.

I'd like to make two broad points to explain the complexity of this issue. On the one side the broad economic strategy underway in Poland, and now in most of Eastern Europe, is applicable as a general approach for the Republics of the Soviet

Union. In other words, there is a basic direction of change and a basic strategy and even a technical sequencing of measures that can be determined, can be discerned as a way to grab hold of the economic crisis in the Soviet Union to move forward and to make a feasible transformation of the Soviet economy.

On the other hand, the political and the social base for the transformation in the Soviet Union is so vastly different and in so many ways so vastly less promising that one has to have a considerable fear about the possibility of sustaining in a peaceful and democratic society, the kinds of reforms that are now underway in Eastern Europe.

As a broad measure, the Soviet republics should also follow the three pillars of Privatization, Liberalization and Stabilization. The ruble, like the Polish zlotie, could become a convertible currency within months. Almost no Russian economist sadly believes that, but they're wrong. It was not believed in Poland either. They can create working a monetary system, they can create the normalcy of markets, free prices and supply and demand. The basic strategy can work. The basic caveat that no country in Eastern Europe has made the break-through on privatization decisively will apply and lead us to worry and think even more deeply about how to accelerate that problem in the Soviet Union.

There is one economic aspect of the Soviet Union that is not directly present in Eastern Europe worth stressing a, forth pillar of transformation and that is Demilitarization. While Eastern Europe is severely distorted by a Stalinist emphasis on heavy industry, the Soviet Union is pathologically distorted, not just by an emphasis on heavy industry but an emphasis on heavy military industry. This has been a militarized state designed by paranoid and indeed insane leaders, in the case of Stalin. The economy still shows all of the hallmarks of a society where the best

resources, the best science, and an overwhelming proportion of industrial capacity is used to produce tanks and armaments and not civilian goods. This is a problem to some extent in parts of Eastern Europe but extremely the case in the Soviet Union. So demilitarization I would put fully as a fourth category of the economic transformation that has to be accomplished in the Soviet context.

The problem is not discerning a strategy, as I have said, it is easy enough to do on paper, the problem is rather to find a political mechanism and I would hope and pray a democratic political mechanism, for implementation of the strategy. This is without question the fundamental problem in the Soviet Union today.

The Soviet Union is now a conglomerate of 290 million people without a government. Boris Yeltsin is perhaps the only fixed point in the entire firmament right now, that is a relatively fixed point. He is on vacation and with problems that we cannot exactly understand today, but it is a government, for example, where there is no Prime Minister in the Russian republic now since the Russian Prime Minister resigned last week. That means there are no working ministries because every minister knows he is likely to be out of his job or could well be out of his job in two weeks.

There is in the works a fundamental restructuring of the Russian government where a presidential system is being put in place through a mechanism called a state council. But there are no relevant authorities yet appointed to the state council in the area of economics.

There are "union bodies", as you know, trying to negotiate agreements among the republics. But the authority of those negotiators to carry the support of their republics has to be considered in doubt. The nature of the agreements likely to be reached among the republics will probably be so obscure and ambiguous as to be

virtually meaningless and unenforceable. Most of the republics themselves are in turmoil with autonomous regions trying to break loose with non-democratic governments facing internal challenge and the rest. This is a revolution, a revolution of obvious incredible magnitude, complexity, even ferocity and to think about economic stabilization at this moment has to be considered a highly problematic proposition.

What are the chances of getting order out of this chaos? I believe in the end, and I hope the end is weeks - not years, that the principle responsibilities for management of the societies and of the economies will rest with republics, not with something that we now call the Soviet Union.

It is important to remember that Russia and the Ukraine together account for about 80 percent of the total economy of the non-Baltic Soviet Union. Stabilizing Russia and the Ukraine is the fundamental goal, and if that can be accomplished, that would spread stability to all of the other 10 republics other than the Baltics republics. Therefore, a great deal depends on the pivotal events now underway within Russia and within the Ukraine. The Ukraine will be voting for independence on December 1 in a referendum. It will be electing a new President on December 1. The Russian government is involved in a fundamental reorganization, as I said, a whole government structure has to be appointed from Prime Minister on down and from state council on down. There is a possibility that these two republics could grasp the situation and act decisively because as I have said the economics can be discerned. It is a question of the political capability.

Finally, it will depend on what we do in the West. Something in which our President has unfortunately not yet told us and admitted that it depends on us as well. The stakes of all of this could not be larger. There are 30,000 nuclear weapons

still in Soviet territory. There are thousands of tactical nuclear weapons that can be carried off by individual commanders, sold in black markets, sold to terrorists and so forth, or become the property of local despots easily enough, and other weapons of mass destruction, chemical and bacteriological weapons of mass destruction.

If this situation does explode, if as is quite possible, Soviet Union follows Poland's road in 1989 of degenerating into a full open hyperinflation, but then fails to follow up with the decisive reforms, there is every reason to expect political chaos in this region, with potentially devastating consequences for our own security and Europe's security down the road. On the other hand, if the reforms are successful there is every possibility of truly winning the peace dividend of saving what is now 250 billion dollars a year that the West is spending to defend itself against the Soviet threat in NATO, of saving tens of billions of dollars in the United States to be used to address our urgent problems, of having the possibility of economic, scientific, technical, cultural and environmental cooperation with the democratic states of the Soviet Union intergrated into the West. I believe that the stakes could not be higher for us now and I do believe that the decisions that are taken by Yeltsin and others within weeks and months will be pivotal in the outcome. The point I want to remind you of, in conclusion, is that in Eastern Europe we understand that the stakes are high and we are providing aid of, not overwhelming amounts, but of considerable amounts that are proving to be of decisive importance. The International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, the twenty-four advanced industrial countries are all providing technical support, infrastructure investment, lending to private institutions, balance of payment support, convertibility funds to help stabilize currencies and the like.

For Hungary, a country of 10 million people, a billion dollars is a lot. Soviet Union is 29 times the population of Hungary so equal per capita needs would be 30 billion dollars. Similarly for Poland, 3 to 4 billion dollars of aid and debt relief may just suffice, but barely. Soviet Union is seven times greater. Again 30 billion dollars is in the range of what would be, I believe, of fundamental importance to help them bridge this gap.

Unfortunately, mobilizing those resources is not deeply popular in the United States, but requires enormous international cooperation and leadership and most of all a President who will spell out the stakes to us clearly and to let us know why this is one of the most decisive historical moments we will face as a nation.

I can only hope that in the coming weeks that we can hear those things, learn those things and then make the decision that if the Russian government and the new Ukrainian government in the other republics are prepared to take the fundamental steps forward, that we will be prepared to help them together. Thank you very much.

Dr. Daughdrill

Doctor Sachs, thank you very much. You honor us by your presence, you inform us and teach us. And I am reminded that it is almost intimidating that a person who was born the year that Libby and I got married has made such an incredible contribution to economics and to the world. We're grateful for your analysis, scholarship, your expertise and your courage in doing that. We would love to ask you a hundred questions, unfortunately only Rhodes students will be able to do that tomorrow. So if any of you would like to pay your tuitions this evening, we will be glad to receive those.

This has been a wonderful time together - a time to learn, a time to stretch, a time to be with old friends and meet new ones. This concludes the eighteenth presentation of the Frank E. Seidman Distinguished Award in Political Economy. Thank you for coming, drive carefully and we are adjourned.

Jeffrey Sachs Visit to Memphis

Professor Sachs, his wife and two children arrived in Memphis, Thursday afternoon, September 26. Also coming to Memphis for the occasion were his parents, Mr. and Mrs. Theodore Sachs and his parents-in-law, Dr. and Mrs. Walter Ehrlich.

The Award presentation was made to Professor Sachs by Professor Amartya Sen at a formal banquet at the Memphis Country Club, Thursday evening, September 26. Professor Sen was a member of the 1991 Selection Committee.

On Friday morning, September 27, Professor Sachs was honored at a breakfast hosted by the Board of Trustees of the Economic Club of Memphis. Later that morning, he participated in an informal discussion with Rhodes students from the Departments of Economics, Business Administration, and International Studies. At noon, he was the honored guest at a luncheon hosted by the faculty of the Department of Economics and Business Administration.

Friday evening, the Sachs were honored again at an informal dinner hosted by P.K. Seidman and Dr. and Mrs. James H. Daughdrill, Jr. Dr. Daughdrill is President of Rhodes College.

*The Frank E. Seidman Distinguished Award
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Granted this 26th day of September, in the year One Thousand Nine Hundred Ninety-One in Memphis, Tennessee.

