

SEVEN Fund Student Essay Competition

Question

“Poverty can be regarded as a matter of exclusion from networks of productivity, and not simply as having an unequal portion of what is imagined to be a fixed number of economic goods. In that sense, ending worldwide poverty is serious business. Describe enterprise based solutions to poverty in this context.”

Abstract

Billions have been spent on aid and charity based development over the past half-century. This approach at best aims to redistribute an assumed fixed number of economic goods. The results have been dismal. If we decide to truly engage in uplifting the poor, we will choose market-based development, which delivers more efficient and satisfying results. Hence, I offer the following enterprise based solutions to worldwide poverty: (1) Do not intervene where markets exist and function, (2) Support organizations engaged in developing non-existent or under-served markets and (3) Start a business in a developing country or develop products for developing markets.

Essay

Independent of ideology, I believe that every decent human being in our world today is willing to make some personal sacrifice in order to, as Bono says, “Make poverty history.” Increasingly during the past few decades of global economic expansion, provocative literature has suggested that indeed a small financial contribution by a few million Western households will lead to the abolition of poverty. While useful for sizing certain societal ills: X billion dollars will cure malaria, Y billion dollars will provide clean drinking water for all Africans, and Z billion dollars will give all children basic education, this literature offers little practical use. Why? These books simplify poverty into an issue that can be solved by brute wealth redistribution of an imagined fixed number of economic goods, in spite of the fact that collectivist reform has never worked in world history.

Economic collectivism clearly failed in the Soviet Union and China, and is currently failing in Zimbabwe. Despite this appalling record, people continue to propose similar schemes as the solution to

worldwide poverty. Why do we fall into this trap so consistently? The answer lies in our guilt and our desire to assuage it. Wealth, more specifically wealth disparity, gives rise to personal and societal guilt. We feel pity for those who are less fortunate and desire to do something about it. Most often we deal with these feelings by giving away some portion of our wealth directly through personal donations or indirectly through government. This is supposed to make us feel better, but what does it do for the plight of the poor?

In most cases, we fail to take the time to see what happened to our money, and some never know if their dollars made any difference in the world. We avoid following up for many petty reasons. First, we prefer the path of least resistance. Since follow up takes effort, we tend to avoid it. For example, if my wife were hospitalized I would immediately be at her bedside. Contrarily, if my friend's wife were hospitalized I would feel compelled to visit, but would likely just send flowers. Too often, we opt for sending flowers because it is easy. Second, our charity is often more about our guilt than their plight. Once we give, we feel better about ourselves and wishful thinking helps us believe our money made a difference. Third, we fear learning about how our actions perpetuate a system of handouts and external dependency. Follow up might reveal how our charity has convinced people that Western welfare is more rewarding than working. Without follow up, we cannot hope to make any significant progress.

For these reasons society has not dedicated enough effort to poverty eradication. As Western capitalists, regardless of political ideology, we dedicate our lives to the pursuit of property and the accumulation of wealth. Then many of those who successfully attain a fortune give it away anti-capitalistically attempting to run from their "wealth guilt" as quickly as possible. They forget their route out of poverty, not through charity, but through seizing an opportunity and meeting an unmet need. If this is the way Western society developed, why then must it be so different in Namibia, Kyrgyzstan or Guatemala?

Assuming we wanted to dedicate more energy toward ending poverty, how would we go about doing this? To start, it seems we could improve in our implementation. We cannot take the path of least resistance by "sending flowers" anymore, but instead must consciously engage with our world. We need to

approach poverty with the same tenacity we approach our own economic development. We can no longer accept aid and charitable contributions as our primary efforts to end poverty. Once we decide this, we will understand what needs to be done, which is far more than giving away a portion of our wealth.

The individuals that decide to consciously engage will choose market-based development over centralized aid and charity. Markets enable enterprise formation, value creation, job growth, and encourage innovation, whereas centralization relies on paternalistic ideals like the assumption that governments and other bureaucracies are better suited than the people themselves to address societal issues. Our centralized development efforts of the past half-century suggest that our billions of dollars have made little impact. In the next half-century, we will promote inclusive market-based development and find the results much more satisfying. Below I suggest three ways we can take action.

First, in situations where markets exist and function, we must not intervene. In practice, we need to take citizenship seriously by exercising our voice in society. Practically, this means opposing government policies that impede free trade to the detriment of poorer nations. It may also mean re-thinking the organizations we support: are they addressing market failures or preventing enterprise creation by distorting perfectly capable free and existing markets? Some clear market promoting policies we could support include free agricultural trade, specifically removing crop subsidies for Western farmers. We could also re-think how we can more effectively structure the transfer of financial resources from developed to developing nations. Think foreign investment not foreign aid. Governments could empower quasi-governmental investment funds to identify businesses addressing social needs and provide them with growth capital. Financial return must be part of our development effort because it instills discipline and encourages efficient allocation.

This summer I witnessed a wonderful example of a market-promoting campaign. The initiative entitled "Handouts Don't Help" was run by the town of Muizenberg, Cape Town in association with the town's business owners and homelessness organizations. The basic premise of the campaign was to

encourage the wealthy to stop giving handouts to beggars because this charity was distorting the local labor market by rewarding people for staying on the streets. As an alternative the “Handouts Don’t Help” campaign encouraged individuals to tell beggars about the organizations serving the homeless holistically. These organizations address the myriad issues facing the homeless, such as drug addiction and mental illness with the aim to prepare people for workforce re-entry. The overall message of the campaign was heard loud and clear, “Stop unnecessarily intervening in the labor market.”

A second practical way to promote market-based development is to support organizations that are engaged in the development of non-existent or under-served markets. These organizations may be NGO’s, investment vehicles and/or businesses. I believe that support must be viewed as an investment, regardless of its legal classification (grant, donation, loan, stock, partnership equity, etc.). By this I mean that true engagement requires action; think Carl Icahn. It takes time and effort, but development is a process of experimentation: the more perspectives and experiences the better.

To offer a specific example, consider investing money or volunteering time to a microfinance institution or fund like Acción, Grameen Bank, MicroVest, or Opportunity International. These organizations’ missions ring with statements such as, “[Cultivating] self-sustaining financial institutions that serve the poor”, “[Giving] people the tools they need to work their way out of poverty”, and, “Providing opportunities for people in chronic poverty to transform their lives.” Microfinance institutions are leveraging the power of market forces to bring financial services to the whole world. To fulfill this vision, more efforts must be taken to measure the industry’s impact on local economies and develop best practices.

Another example would be to support an organization like Endeavor whose aim is to identify and support high-impact entrepreneurs in developing countries. Through country-level boards, Endeavor is doing the hard work of identifying companies with the potential to expand and create hundreds of jobs. Once selected, Endeavor does not invest financially, but instead offers relationships, contacts and mentors.

In this way, the Endeavor model addresses the information gap, just as microfinance institutions address the financial services gap.

If you are still not satisfied, a third action step to promote market-based development is to get directly involved. Open a business in a developing country. This option requires the most sacrifice and will almost certainly result in a more challenging life. But your skill and passion may be of greater marginal benefit to another society. Your efforts will be an example to the local people who may have never experienced entrepreneurship before. Likewise, try starting a company located in a developed market that serves a developing market. Explore the true needs of the poor consumer and try to meet them through innovative design and creative business models.

By way of illustration, an American friend of mine spent some time in Latin America. His heart was grabbed by the economic and social challenges of Honduras. He decided to study the country in-depth to better understand what it had to offer and discovered that Honduran hardwoods were of great value to the developed world. As a result, he is starting a venture to make wooden toys for the developed market. His primary goals: preserve the Honduran rainforest and empower employees to become entrepreneurs. He could have stayed at his prestigious job as a strategy consultant to Fortune 500 corporations. Instead, he chose to engage.

An example of developing products for the poor is the One Laptop Per Child (OLPC) program. When OLPC stated they would make a laptop and sell it for \$100 just a few years ago, most people responded with skepticism. The fact that the eventual selling price ended up around \$200 does not reflect a failure, but success. Few would have ever believed that a functioning laptop with useful software, networking capability and a pull-cord generator power source was possible for \$200. Not too mention, OLPC has gained imitators, like Intel's Classmate PC. Yes, it has been challenging for OLPC, but it has been rewarding. OLPC has moved decent computing capability significantly closer to the hands of the masses. They should be proud of their achievement. Similar innovations need to happen in areas as

diverse as off-the-grid energy, physical distribution of goods and services, consumer products, health care, housing, and transportation.

These are three enterprise-based ways to leave behind disempowerment through well-intentioned aid and charity and move toward empowerment through active engagement with the poor. To be successful, this model will require altering the Western preference for short-term results over long-term success. It will also require new creativity and cross-cultural collaboration. Most Western businesses are focused on developing products and services for the Western wallet. Significant re-programming will be required for us to really understand how to develop products and services for developing world wallets and cultures, but it is worth the challenge to those who are ruthlessly driven to change the world.

In the end, we will discover a whole new set of opportunities and growth for the next century. But some must lead the change. Some must step up and say that markets must be inclusive, not exclusive. We must admit to ourselves that the best system of implementation of any poverty reduction program involves making sure incentives are aligned correctly, which is best accomplished through markets. Then, we must be willing to sacrifice our some comforts for the good of our world. For many of those who choose to follow this path, there will be a kind of spiritual conviction because this decision involves so much sacrifice. But in the end, it will be worth it. If we aim to see poverty's demise, we must engage.

Personal Information

Name: Craig William Doescher
Address: 60 Wadsworth Street, Apt 20B, Cambridge, MA 02142
Phone: 248.808.0416
Email: doescher@mit.edu
Area of Study: Entrepreneurship & Innovation
Degree: MBA 2009

School Information

School: MIT Sloan School of Management
Address: 50 Memorial Drive, Cambridge, MA 02142
Phone: 617.253.2659

School Point of Contact

Name: Rod Garcia
Phone: 617.253.0272
Email: rgarcia@mit.edu