

## **Making Capitalism More Creative – Bill Gates**

Capitalism has improved the lives of billions of people — something that's easy to forget at a time of great economic uncertainty. But it has left out billions more. They have great needs, but they can't express those needs in ways that matter to markets. So they are stuck in poverty, suffer from preventable diseases and never have a chance to make the most of their lives. Governments and nonprofit groups have an irreplaceable role in helping them, but it will take too long if they try to do it alone. It is mainly corporations that have the skills to make technological innovations work for the poor. To make the most of those skills, we need a more creative capitalism: an attempt to stretch the reach of market forces so that more companies can benefit from doing work that makes more people better off. We need new ways to bring far more people into the system — capitalism — that has done so much good in the world.

There's much still to be done, but the good news is that creative capitalism is already with us. Some corporations have identified brand-new markets among the poor for life-changing technologies like cell phones. Others — sometimes with a nudge from activists — have seen how they can do good and do well at the same time. To take a real-world example, a few years ago I was sitting in a bar with Bono, and frankly, I thought he was a little nuts. It was late, we'd had a few drinks, and Bono was all fired up over a scheme to get companies to help tackle global poverty and disease. He kept dialing the private numbers of top executives and thrusting his cell phone at me to hear their sleepy yet enthusiastic replies. As crazy as it seemed that night, Bono's persistence soon gave birth to the (RED) campaign. Today companies like Gap, Hallmark and Dell sell (RED)-branded products and donate a portion of their profits to fight AIDS. (Microsoft recently signed up too.) It's a great thing: the companies make a difference while adding to their bottom line, consumers get to show their support for a good cause, and — most important — lives are saved. In the past year and a half, (RED) has generated \$100 million for the Global Fund to Fight AIDS, Tuberculosis and Malaria, helping put nearly 80,000 people in poor countries on lifesaving drugs and helping more than 1.6 million get tested for HIV. That's creative capitalism at work.

Creative capitalism isn't some big new economic theory. And it isn't a knock on capitalism itself. It is a way to answer a vital question: How can we most effectively spread the benefits of capitalism and the huge improvements in quality of life it can provide to people who have been left out?

### **The World Is Getting Better**

It might seem strange to talk about creative capitalism when we're paying more than \$4 for a gallon of gas and people are having trouble paying their mortgages. There's no doubt that today's economic troubles are real; people feel them deeply, and they deserve immediate attention. Creative capitalism isn't an answer to the relatively short-term ups and downs of the economic cycle. It's a response to the longer-term fact that too many people are missing out on a historic, century-long improvement in the quality of life. In many nations, life expectancy has grown dramatically in the past 100 years. More people vote in elections, express their views and enjoy economic freedom than ever before. Even with all the problems we face today, we are at a high point of human well-being. The world is getting a lot better.

The problem is, it's not getting better fast enough, and it's not getting better for everyone. One billion people live on less than a dollar a day. They don't have enough nutritious food, clean water or electricity. The amazing innovations that have made many lives so much better — like vaccines and microchips — have largely passed them by. This is where governments and nonprofits come in. As I see it, there are two great forces of human nature: self-interest and caring for others. Capitalism harnesses self-interest in a helpful and sustainable way but only on behalf of those who can pay. Government aid and philanthropy channel our caring for those who can't pay. And the world will make lasting progress on the big inequities that remain — problems like AIDS, poverty and education — only if governments and nonprofits do their part by giving more aid and more effective aid. But the improvements will happen faster and last longer if we can channel market forces, including innovation that's tailored to the needs of the poorest, to complement what governments and nonprofits do. We need a system that draws in innovators and businesses in a far better way than we do today.

Naturally, if companies are going to get more involved, they need to earn some kind of return. This is the heart of creative capitalism. It's not just about doing more corporate philanthropy or asking companies to be more virtuous. It's about giving them a real incentive to apply their expertise in new ways, making it possible to earn a return while serving the people who have been left out. This can happen in two ways: companies can find these opportunities on their own, or governments and nonprofits can help create such opportunities where they presently don't exist.

### **What's Been Missed**

As C.K. Prahalad shows in his book *The Fortune at the Bottom of the Pyramid*, there are markets all over the world that businesses have missed. One study found that the poorest two-thirds of the world's population has some \$5 trillion in purchasing power. A key reason market forces are slow to make an impact in developing countries is that we don't spend enough time studying the needs of those markets. I should know: I saw it happen at Microsoft. For many years, Microsoft has used corporate philanthropy to bring technology to people who can't get it otherwise, donating more than \$3 billion in cash and software to try to bridge the digital divide. But our real expertise is in writing software that solves problems, and recently we've realized that we weren't bringing enough of that expertise to problems in the developing world. So now we're looking at inequity as a business problem as well as something to be addressed through philanthropy. We're working on projects like a visual interface that will enable illiterate or semiliterate people to use a PC instantly, with minimal training. Another project of ours lets an entire classroom full of students use a single computer; we've developed software that lets each student use her own mouse to control a specially colored cursor so that as many as 50 kids can use one computer at the same time. This is a big advance for schools where there aren't enough computers to go around, and it serves a market we hadn't examined before.

Cell phones are another example. They're now a booming market in the developing world, but historically, companies vastly underestimated their potential. In 2000, when Vodafone bought a large stake in a Kenyan cell-phone company, it figured that the market in Kenya would max out at 400,000 users. Today that company, Safaricom, has more than 10 million. The company has done it by finding creative ways to serve low-income Kenyans. Its customers are charged by the second rather than by the minute, for example, which keeps down the cost. Safaricom is making a profit, and it's making a difference. Farmers use their cell phones to find the best prices in nearby

markets. A number of innovative uses for cell phones are emerging. Already many Kenyans use them to store cash (via a kind of electronic money) and transfer funds. If you have to carry money over long distances — say, from the market back to your home — this kind of innovation makes a huge difference. You're less tempting to rob if you're not holding any cash.

This is how people can benefit when businesses find opportunities that have been missed. But since I started talking about creative capitalism earlier this year, I've heard from some skeptics who doubt that there are any new markets. They say, "If these opportunities really existed, someone would have found them by now." I disagree. Their argument assumes that businesses have already studied every possible market for their products. Their attitude reminds me of the old joke about an economist who's walking down the street with a friend. The economist steps over a \$10 bill that's lying on the ground. His friend asks him why he didn't take the money. "It couldn't possibly be there," he explains. "If it were, somebody would've picked it up!" Some companies make the same mistake. They think all the \$10 bills have already been picked up. It would be a shame if we missed such opportunities, and it would make a huge difference if, instead, researchers and strategists at corporations met regularly with experts on the needs of the poor and talked about new applications for their best ideas.

Beyond finding new markets and developing new products, companies sometimes can benefit by providing the poor with heavily discounted access to products. Industries like software and pharmaceuticals, for example, have very low production costs, so you can come out ahead by selling your product for a bigger profit in rich markets and for a smaller profit, or at cost, in poor ones. Businesses in other industries can't do this tiered pricing, but they can benefit from the public recognition and enhanced reputation that come from serving those who can't pay. The companies involved in the (RED) campaign draw in new customers who want to be associated with a good cause. That might be the tipping point that leads people to pick one product over another.

There's another crucial benefit that accrues to businesses that do good work. They will find it easier to recruit and retain great employees. Young people today — all over the world — want to work for organizations that they can feel good about. Show them that a company is applying its expertise to help the poorest, and they will repay that commitment with their own dedication.

### **Creating New Incentives**

Even so, no matter how hard businesses look or how creatively they think, there are some problems in the world that aren't amenable to solution by existing market incentives. Malaria is a great example: the people who most need new drugs or a vaccine are the least able to pay, so the drugs and vaccines never get made. In these cases, governments and nonprofits can create the incentives. This is the second way in which creative capitalism can take wing. Incentives can be as straightforward as giving public praise to the companies that are doing work that serves the poor. This summer, a Dutch nonprofit called the Access to Medicine Foundation started publishing a report card that shows which pharmaceutical companies are doing the most to make sure that medicines are made for — and reach — people in developing countries. When I talk to executives from pharmaceutical companies, they tell me that they want to do more for neglected diseases — but they at least need to get credit for it. This report card does exactly that.

Publicity is very valuable, but sometimes it's still not enough to persuade companies to get involved. Even the best p.r. may not pay the bill for 10 years of research into a new drug. That's why it's so important for governments to create more financial incentives. Under a U.S. law enacted last year, for example, any drug company that develops a new treatment for a neglected disease like malaria can get a priority review from the Food and Drug Administration (FDA) for another product it has made. If you develop a new drug for malaria, your profitable cholesterol drug could go on the market as much as a year earlier. Such a priority review could be worth hundreds of millions of dollars. It's a fantastic way for governments to go beyond the aid they already give and channel market forces so they improve even more lives.

Of course, governments in developing countries have to do a lot to foster capitalism themselves. They must pass laws and make regulations that let markets flourish, bringing the benefits of economic growth to more people. In fact, that's another argument I've heard against creative capitalism: "We don't need to make capitalism more creative. We just need governments to stop interfering with it." There is something to this. Many countries could spark more business investment — both within their borders and from the outside — if they did more to guarantee property rights, cut red tape and so on. But these changes come slowly. In the meantime, we can't wait. As a businessman, I've seen that companies can tap new markets right now, even if conditions aren't ideal. And as a philanthropist, I've found that our caring for others compels us to help people right now. The longer we wait, the more people suffer needlessly.

### **The Next Step**

In June, I moved out of my day-to-day role at Microsoft to spend more time on the work of the Bill & Melinda Gates Foundation. I'll be talking with political leaders about how their governments can increase aid for the poor, make it more effective and bring in new partners through creative capitalism. I'll also talk with CEOs about what their companies can do. One idea is to dedicate a percentage of their top innovators' time to issues that affect the people who have been left behind. This kind of contribution takes the brainpower that makes life better for the richest and dedicates some of it to improving the lives of everyone else. Some pharmaceutical companies, like Merck and GlaxoSmithKline, are already doing this. The Japanese company Sumitomo Chemical shared some of its technology with a Tanzanian textile company, helping it produce millions of bed nets, which are crucial tools in the fight to eradicate malaria. Other companies are doing the same in food, cell phones and banking.

In other words, creative capitalism is already under way. But we can do much more. Governments can create more incentives like the FDA voucher. We can expand the report-card idea beyond the pharmaceutical industry and make sure the rankings get publicity so companies get credit for doing good work. Consumers can reward companies that do their part by buying their products. Employees can ask how their employers are contributing. If more companies follow the lead of the most creative organizations in their industry, they will make a huge impact on some of the world's worst problems.

More than 30 years ago, Paul Allen and I started Microsoft because we wanted to be part of a movement to put a computer on every desk and in every home. Ten years ago, Melinda and I started our foundation because we want to be part of a different movement — this time, to help

create a world where no one has to live on a dollar a day or die from a disease we know how to prevent. Creative capitalism can help make it happen. I hope more people will join the cause.