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INTRODUCTION
THE CHARITY TRAP

If you stroll along Wall Street in New York, you see that it ends at Trinity Church. It's a famous view, down the narrow street to the elegant spire of the brownstone church. You can find the view in countless postcards, guides to New York City, and snapshots that tourists took themselves. For two centuries Trinity has been the "Wall Street church," and remains so to this day.

If you went to Trinity on Easter Sunday, 2008, you heard the children's choir and a stirring sermon by the rector. In the Prayers of the People you prayed for the Episcopal Church, the Archbishop of Canterbury, bishops in the United States, and Trinity's companion Diocese of Matlosane, South Africa. You prayed for the American president, the governor of New York State, the mayor of New York City, and the secretary-general of the United Nations. You prayed for the homeless and destitute, for all who have died, and for the Parish mission that proclaims by word and example the Good News of God in Christ.

And you also prayed for this:

> We pray to strengthen our commitment to the Millennium Development Goals, and in support of Counting Prayers, a show of will we say, "The world now has the means to end extreme poverty. We pray that we have the will."

Counting Prayers is a Trinity program that encourages religious congregations of all denominations to support the United Nation's Millennium Development Goals and sponsor Millennium Villages in the poorest countries of the world. One of its aims is a billion prayers for the Goals, and it keeps track online. As of June 11, 2008, the tally was 563,218. When you become a Millennium Congregation, you send money to a Millennium Village, stay in touch with the villagers online, and send your congregation members to visit them. The money goes to help the Village put in place all eight Goals at once:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria, and other diseases.

7. Ensure environmental sustainability.
8. Develop a global partnership for development.

Trinity is just one of the many notable supporters of these Millennium Development Goals. Celebrities like the rock star Bono and the Hollywood actress Angelina Jolie are perhaps the most famous examples. The list is long and grows every day. Yet Trinity's support is especially telling on two key counts. First, it shows the roots of the Goals in the timeless and worthy religious desire to help the needy. Second, it takes place literally in the shadow of Wall Street, worldwide home of the real solution to poverty: the business sector.

The Millennium Development Goals are a vehicle for charity. Money from rich countries pays for government agencies and nongovernmental organizations (NGOs) to run projects in poor villages that make people's lives there a little bit better. But such projects have never lifted people out of poverty. We know what does that: the ordinary business sector. Only business creates the jobs that pull people out of poverty. It's the only reliable path to mass prosperity the world has ever known.

Prosperity and poverty are opposites. Poverty is the lack of prosperity, and prosperity is where you arrive when you rise out of poverty. Let's use the most basic definition of prosperity: a decent place to live, decent clothes, food on the table, and enough wealth of some kind—livestock, land, a building, money, jewelry, or other possessions—to survive setbacks like drought, sickness, economic crisis, or war. When large numbers of people achieve that, we can call it "mass" prosperity. The farther back in time we go, the harder it is to estimate how many people were poor or prosperous. Even today we can only make a rough estimate: Of the world's 6.7 billion people, more than 40 percent—almost 3 billion—are poor.

Way back in time, 100 percent of people were poor. With the rise of kings like the pharaohs of Egypt, a tiny percentage—the rulers—were prosperous. The rise of ordinary business then led to mass prosperity for more and more people, to reach today's figure of 60 percent. The ordinary business sector is the best hope for the other 40 percent to rise out of poverty too. Our basic definition of *ordinary business* is this: Private individuals and companies employ people for pay, or people work for themselves as farmers who sell their crops, artisans who sell their wares, merchants who buy and sell what others make, or bankers who finance all of the above. Everywhere business emerged from other systems, so it's often hard to see exactly when business overtook them. For example, in feudal Europe lords started selling crops that their serfs produced. Eventually they were no longer serfs and lords but farmers large and small, and their employees, within a business system.

If you're reading this in a prosperous country, you can see for yourself the simple power of the ordinary business sector. Just take a look around you. What do you see and how did it get there? The furniture in the room you're in probably came from five or six different furniture businesses that made it, five or six different stores that sold it, and five or six different shipping companies that got it from the maker to the store. Same with your clothes. Same with the food you ate today: A business made it, a store sold it, and another firm shipped it. Or else you went to a restaurant—another business. Other businesses sold those businesses the wood or the cloth or the tomatoes to make what you use or consume. Behind the scenes, other firms insured those businesses, gave them loans, or did their accounting. Some are local and some are based in other countries. All together they give vital jobs to people in whatever country they operate in or sell to. Those workers and the companies themselves pay taxes with the money they earn, which governments spend on vital services such as roads and hospitals, or they donate to charities to aid the poor or help local arts, science, or education.

Go back in time for every region on earth and you will find that the people there started out poor. You will also find that there was no business sector. Over the centuries, at different rates and at different times, ordinary business grew and spread to more and more parts of the world. Our most recent examples are India and China: Over the past two decades they began removing the shackles from their business sectors, and millions of their citizens rose out of poverty. There remain millions of poor in India and China, of course. But business did not make them poor. They were already poor, going back centuries. The best chance for these remaining poor to escape poverty is for the business sector in India and China to keep growing, and thriving. The solution to poverty in these formerly destitute countries is not the Millennium Goals, or village NGO projects, but the ordinary growth of a thriving domestic business sector.

Trinity, Bono, Angelina Jolie, and all the contributors to the Millennium Goals have fallen into the charity trap. They themselves owe their prosperity to the business sector, yet for poor countries they offer charity instead. Even Warren Buffet, perhaps the most successful business investor in history (and a graduate of Columbia Business School) falls into the same trap: When he gave $30 billion to the Gates Foundation, he told the press, "The market has not worked in terms of poor people." The truth is, Buffett knows very little about the market in poor countries—he makes his money in rich ones. And Bono, Jolie, and the Trinity parishioners who visit their Villages have hardly studied the economic history of poor countries in any meaningful detail. They just assume that charity is the answer: And that's exactly the trap.

The market has not worked in poor countries because it never had the chance. It's the same story as India and China: In the 1990s their governments finally removed longstanding barriers to ordinary business—especially licensing, where you could not open or invest in any business without an expensive government license, and the government gave out very few of them because of an explicit intention to restrict the business sector. In both countries the results have been dramatic. In the poorest countries of the world, especially Africa, such barriers remain. And in these poorest countries another set of barriers make things even worse: a vast volume of charity aid that crowds out or corrupts the business sector. Since the 1960s, trillions of dollars in charity aid have failed to make a dent in poverty, yet the money continues to flow.

Take the three countries in the world that receive the most aid per local dollar: São Tomé, Guinea-Bissau, and Malawi—all in Africa. The World Bank ranks countries every year on how easy it is for a local citizen to start and run a business: In 2008, these three countries ranked 163rd, 176th, and 127th out of 178 nations on the list. Basically, don't even bother to try. So instead of struggling to start a business, citizens of these countries aspire to work for the government and NGO agencies that deliver the aid. Working as a driver for an aid agency makes you many times more money than working as a farmer or trader. And why should the government of such countries remove the barriers to business when it gets plenty of money from foreign aid? Between government rules and charity money, business hasn't got a prayer.

Think back to the Soviet Union in the 1980s. That's when serious poverty became apparent across the land: Would you have recommended the Millennium Development Goals? Was the answer then an array of village projects funded and run by government agencies and NGOs? Of course not. That's not how to end poverty. Only the business sector can do that. That's what happened in the Soviet Union and its satellites in Eastern Europe after the Berlin wall fell in 1989. Over the past two decades the business sector has grown from nearly nothing in those countries and has gradually brought prosperity to more and more of their people.

But the poorest countries of the world have no single Berlin wall to topple. Hundreds of aid agencies run thousands of aid projects in dozens of countries. Thousands of people who run those agencies—and the millions of good-hearted people who fund them—have all fallen into the same charity trap as Trinity and Bono and Buffett. No single policy change, by one key agency, can reverse the tide. Development charity has become the favorite cause of schoolchildren in rich countries, high school seniors feature it on their college applications, and the list of celebrities who add their names and millions is growing all the time. Charity aid is here to stay, no matter what damage some of it causes.

Yet all is not lost. We cannot and should not stop the flow of aid. There will always be a role for charity, as there still is in all rich countries. Giving food, clothing, shelter, and medicine to the poor is a long and noble tradition. It is a biblical certainty that the poor will always be with us, and charity helps keep them alive. That is a very good thing. But it's very different from aid for economic development, to bring people out of poverty. For that we must direct aid to support the business sector. And we have a stellar model: the Marshall Plan of post–World War II Europe. Many people think that the Marshall Plan was charity aid: food, clothing, and medicine for war-torn Europe. But that was the United Nations Relief and Rehabilitation Administration, which wrapped up its work in 1947. The Marshall Plan came later. Its single aim was a thriving domestic business sector in every single country. And it worked. Aid can indeed help to end poverty, by helping the business sector. The Marshall Plan shows how.

This book makes the case for why and how to divert a major share of aid from charity to business in poor countries. In the first half of the book we study the history of prosperity around the world—how all countries started out poor but some, over time, rose out of poverty. In all cases, business played the key role. Next we move to countries that have not escaped from poverty, where we see how anti-business policies and practices have kept prosperity at bay. And we find out in detail how the aid system of the past forty years—of which the Millennium Development Goals are just the latest round—makes it even harder for business to thrive in the countries that need it most.

In the second half of the book we learn how the Marshall Plan worked and how to adapt it to poor countries today. Europe after World War II is very different from the poor countries of the twenty-first century, so the Marshall mechanisms need prudent adaptation to the present day. We work through the details of the program, organization and funding for a Marshall-type aid system at a large enough scale to make a big enough difference in as many poor countries as decide to join in. And from that we discover what everyone can do to help: how to take the same energy, good will, time, and money that so many organizations and individuals devote to charity aid and apply some of it to helping business instead.

Business will never touch the heart the way charity does. Some of those Trinity parishioners want to pay for a well in a village and then go visit to see it working. There is nothing wrong with that desire, but typically they remain completely unaware of the damage behind the scenes: how a local well-digging company can never compete with a foreign charity that digs wells for free. But there are ways to help the well company too, and that's the path out of poverty. Charity and business are equally worthy, equally possible to support with aid, and equally vital to saving the world.