
Free Market in Developing Countries

You are on your way to school one morning as a young person in Haiti. You see a huge truck drive through your town with the word "TOMS" painted across its side. You know that this is the day you will get a new, free pair of shoes to replace the six month old TOMS you are wearing right now, and you are thrilled so you run to follow the truck! At the very same moment, a man in his mid 20s sees the same truck, looks down at his shoe-making equipment, glances into his shoe store, then looks back to the truck with a look of defeat. But why?! This is a happy day! The reason you are excited and the man who is trying to feed a family and pay his workers is not is because when the "generous" Americans from TOMS Shoes started rolling into town with all kinds of free stuff, local businesses, including this shoe store, began their decent to insolvency. There is no ability to sell one's products - be it shoes or food - when outsiders, out of a generous, but ignorant heart, dump free stuff on an economy. I have spent time in Guatemala and inner city Detroit and have seen the difference between a handout-based economic system and one that encourages a free market system. Generosity and a desire to help people is a great thing. The question is how best to steward such kindness without hurting people. I will give you examples of how well intentioned generosity has hurt the poor and will give you examples of solutions which have not hurt the poor but helped lead the them to economic freedom.

By pouring foreign aid into impoverished countries, we often end up disrupting their economy. Foreign aid, or Official Development Assistance, consists of government-to-government transfers and takes the form of grants or loans. What happens is our tax dollars go to governments and international organizations, which transfer those funds to the governments in the developing world for things like food, infrastructure, and healthcare. As foreign aid has expanded, consultants, charities, and non-profit, nongovernmental organizations - or NGOs - have received government grants and contracts and taken their money to both developing world governments and straight to projects in the countries themselves. In Haiti alone, it is said that there were more than 10,000 NGOs in the country following the Haiti earthquake in 2010. Angus Deaton, winner of the Nobel Prize in economics, has concluded that "By trying to help poor people in developing countries, the rich world may actually be corrupting those nations' governments and slowing their growth" (Swanson). This is evident in the story of Haiti. After the earthquake hit, there were a lot of needs and Americans quickly came to try to meet those needs. One Haitian said in the documentary Poverty Inc.: "It was good that people came in and started helping. The problem is that the short term natural disaster turned into a long term unnatural disaster" (Mauren).

The underlying root of this problem is that pouring in aid can disrupt local enterprise efforts. When Americans and other countries flood an economy with subsidized products, undesired competition is created that results in diminished demand for products made by local businesses. After all, why would someone buy food or other commodities from a local business if he or she could get them for free through donations? In the same way, Americans flooded the Haitian economy with rice, thereby killing the local rice industry and prolonging the Haitians' poverty. The result of all this was that the losers of charity were the actual recipients of it. One Haitian farmer said that "It really just made us lazier, it made us really not able to produce our own things" (Mauren). Instead of helping Haitians get back on their feet by supporting local

businesses and helping them export their product to other countries, Americans continued to flood the economy with their own subsidized rice, even three years after the earthquake happened.

How then can charity be reformulated so that it helps without hurting at the same time? The solution is free enterprise. What is free enterprise? It is an economic system in which private business has the freedom to operate competitively and free from government interference. Handouts are not the cure to systemic poverty. You cannot just give someone fish their whole lives. You must teach them how to fish. Likewise, we need to provide people with the tools – things like education and vocational training - to work or become entrepreneurs themselves. The resources in 3rd world countries are not lacking, and the people there are not stupid. They are simply disconnected from global trade. Today's poor need access to a network, and the way we can help is to train NGO's to support local businesses instead of providing a constant source of donations. Jean-Ronel Noel, a native Haitian, presented a beautiful picture of entrepreneurship in the business he launched prior to the earthquake. He and his partner Alex discovered how to harvest the abundant sunlight in Haiti and turn it into energy to resolve the energy problem in that country. They founded Enersa, which uses sunlight energy to create solar streetlights. Many of Jean and Alex's employees come from the over-populated shantytowns in Haiti, and they recruited and trained these young men. People like Frantz Derosier, a lighting technician for Enersa, have had their lives changed by this company. Derosier can now pay his house bills and send his daughter to school because of the free enterprise efforts of Jean and Alex. When the earthquake hit and power in Port-au-Prince went out though, NGOs came in with solar equipment from abroad. So when Enersa attempted to get their production going again and recover from the natural disaster, they couldn't, because thousands of solar panels were coming in for free. Enersa went from selling an average of 50 streetlights a month to selling a total of 5 in 6 months. The suppliers of foreign aid must bring an end to the status quo of flooding local markets with free things. Rather than raising countries from poverty, it can further deprive the local economy and stunt its growth. Potter's House is an incredible example of what it looks like to establish a presence in an impoverished area - in their case the dump in Guatemala City - and help families and individuals get on their feet by earning their own success. Potter's House empowers people by providing education for the poorest of Guatemalans and trains parents in microenterprise.

It is my sincere hope that these stories shed some light on what is actually happening as a result of heartfelt but ignorant Americans providing donations to 3rd world countries. I would encourage you to think through the trickle down effect of giving and to instead give to organizations that create sustainable employment and sustenance for those in poverty. If we fail to execute this strategy of helping countries earn their way out of poverty, the cycle they are trapped in will continue, billions of dollars in U.S. aid will be wasted, and recipients of our aid will lack empowerment and dignity that comes through earning their own success.