

# EDITORIAL: ENTREPRENEURIAL RESPONSES TO POVERTY AND SOCIAL CONFLICT: THE *ENTERPRISE AFRICA!* PROJECT<sup>1</sup>

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## Introduction

The puzzle that is Africa has captured the imagination of scholars, intellectuals and policy-makers. Jeff Sachs, Bono and Bill Gates have become identified in the public mind with the project to end poverty and disease in Africa. There should be no doubt that the puzzle is real and the situation is tragic. Why has Africa lingered behind the developed world? How can so many suffer from extreme poverty (living on less than \$2 a day) and from disease (malaria, TB and HIV)? Far too many Africans face a life of famine, disease, political corruption and war. Africa has more poor countries and more oppressive regimes in power than any other region of the world.

## The foundations of development

Unfortunately, the standard answers to the questions of Africa are grounded in a false premise and thus lead to wrong policy solutions. Despite what you may be told, poor countries are *not* poor because they are poor. The premise of the vicious cycle of poverty has produced disastrous public policy toward the developing world for over 50 years as thinkers from P. T. Bauer to William Easterly have painstakingly argued in various works such as *From Subsistence to Exchange* and *The White Man's Burden*. Bauer, in particular, demonstrated how small-scale trading by indigenous traders provides the foundation of development. Bauer insists that we consider where we all came from – including those fortunate to live in the prosperous West. We all began in conditions of extreme poverty and somehow engaged in economic transactions that built upon one another to develop the complex division of labour that increases productivity and exchange relations that create wealth that we benefit from in an advanced modern economy. To use the language of Easterly, the ‘searchers’ are responsible

for the wealth in the West, not the ‘planners’, and yet the vast majority of the proposed solutions to address the puzzle of Africa are a modern version of large-scale planning.

## The failure of aid and planning

The justification for the planning mentality given by scholars such as Sachs is that Africa is geographically disadvantaged and thus the reliance on the natural course of gains from trade cannot be trusted to lift the region from poverty. Instead, a transfer of resources from the West to the underdeveloped world is both necessary for economic development and disease alleviation, and is morally justified on a variety of grounds. The literature on Global Justice, most identified with Peter Singer, tends to reinforce the moral argument for massive redistribution of resources from the West to the rest.

The moral reasoning of Singer, or Thomas Pogge, runs into at least two problems on their own terms. Both are making consequentialist arguments for redistribution, but the evidence on redistribution to date is not supportive. Billions of dollars have been spent already on Africa, yet the funds have not solved the problem. In fact, it could be argued that foreign aid has been counter-productive. So the consequentialist case has to address the empirical reality of the failure of development assistance. It also has to address the analytical and empirical argument that the source of sustained development is small-scale trading by indigenous traders, and the subsequent development of a complex division of labour and expanded opportunities for gains from trade. In other words, we can agree completely that there is something horribly unjust and tragic about the situation in Africa, but argue that the means to address the end of alleviating the injustice is not global redistribution.

## The need for institutional reform

Instead, the focus is on getting indigenous populations to adopt sound political and legal institutions (limited government and the rule of law) and public policies of economic freedom that are conducive to economic growth and development. This is not 'rocket science' – secure private property rights, sound money, fiscal restraint and free trade indicate economic freedom and that is correlated with economic growth and development; whereas insecure property rights, inflation, high levels of taxation and protectionism generate economic stagnation. Adam Smith pointed out this basic point centuries ago when he stated:

'Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel or which endeavour to arrest the progress of a society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.'

Unfortunately, the wisdom of Adam Smith is not guiding the policy discourse on African development.

## The *Enterprise Africa!* project

The *Enterprise Africa!* project was begun to demonstrate the folly of the argument that claims the solution to Africa's woes is to be found in government planning for development and foreign assistance programmes. Instead, after rolling up our sleeves and spending much time over the past two years on the continent, our research argues that the solution to Africa's problems will be discovered by Africans themselves in their efforts to resolve conflicts through the evolution of rules of social co-operation, and to realise the gains from trade through entrepreneurial initiatives. To explore the efforts at indigenous progressive social change, we decided to go to the field and try to tell the story of how Africans are finding enterprise-based solutions to the problem of poverty. We asked: What role do businesses play in improving their communities? How are so-called public services provided for the poorest of the poor? And, where might we find productive policy regimes that are enabling wealth creation?

Mercatus Center Senior Research Fellow Karol Boudreaux led a team of researchers from the Mercatus Center at George Mason University and the Free Market Foundation of Southern Africa who together travelled throughout Africa and met with policy-makers, researchers and most importantly the small-scale traders themselves. Eustace Davie,

Temba Nolutshungu and Jasson Urbach were a steady presence in Africa throughout the project, and countless local partners ensured the team had access to the economics of everyday life in the communities within which they worked.

Karol and her team have produced reports on entrepreneurial private solutions to public transportation challenges, and the impact of property titling in South Africa, as well as the impact of agricultural technologies in rural South Africa. Her study on the speciality coffee industry in Rwanda is a harrowing example of Voltaire's intuition that there can be peace through commerce. Reports from the field by Karol and others involved in the project have been made from South Africa, Botswana, Mauritius, Rwanda, Namibia, and soon Tanzania – all providing examples of how indigenous entrepreneurs are alleviating poverty and social conflict through market ventures.

The basic lesson to be drawn from these studies is how governments in Africa more often than not create situations in which corruption is a way of life due to over-regulation and government control of economic activities in general. Most countries in Africa lack quality institutions of governance and as such are not capable of providing an economic environment conducive to economic growth and development. But the refreshing knowledge that Karol and her team bring to us is that there are numerous individuals who work around the system to attempt to realise the gains from trade.

*Enterprise Africa!* begins to provide an answer to a question too seldom asked: 'Now that we see the overwhelming evidence in support of the critique of foreign aid, what do we do? Now that we know what fails, what works?'

## The role of entrepreneurs

Where government cannot address the issue effectively through the public sector, individuals are effectively operating in the private sector to define property rights, to innovate with technology, and to pursue trading opportunities that potentially lift people out of poverty. Of course, there are limits to how much individual initiative can fuel widespread economic growth when so much effort has to be expended to get around oppressive and corrupt governments. But, just as in the former socialist countries, private entrepreneurs can fill in the gaps in the supply side and alleviate consumer frustration on the demand side. Entrepreneurs can also provide the required protective infrastructure for exchange relations when public sector governance is failing. In Africa we have seen private sector initiatives in technological innovation, pure arbitrage in realising gains from trade, and the emergence of rules of governance in human affairs outside the realm of the state.

The threat of predation by either private or public sector actors is the biggest impediment to long-term and sustainable economic growth and development. When predatory behaviour goes unchecked (or worse, is actively encouraged), the time horizon of economic behaviour is shortened, and the economic relationships will tend to be with only those familiar to you. An expanded division of labour and lengthy investments are inconsistent with high levels of predation. In this sense, the political and legal environment in operation can be seen as a factor of production. There are, in other words, many different ways for a people to live with one another, but very few ways to live with one another in a peaceful and prosperous manner. Again, the wisdom of Adam Smith outdistances the scientism of subsequent political and economic thinkers.

### Increasing productivity

The logic of this is rather straightforward. To solve the problem of Africa's extreme poverty, we have to remember that the only way to increase real income is to increase real productivity. Increases in real productivity are a function of (a) technological innovations, (b) enhanced labour skill and (c) improvements in the organisation of economic activities. The Smithian search for gains from trade, and the Schumpeterian striving for innovation are a consequence of the lure of pure profit that only a vibrant market economy can provide to participants.

Adam Smith put forth the proposition that the division of labour was limited by the extent of the market; as the market expands, the division of labour grows more complex and intricate. Smith's virtuous cycle – where markets expand and allow for greater refinements in the division of labour, and these refinements in the division of labour lead to increased productivity and thus expand the opportunities for gains from trade – breaks out of the Malthusian trap of subsistence levels of production and leads instead to increased wealth creation. The wealth and poverty of nations is a direct consequence of whether the effective institutions of governance in a society enable Smith's virtuous cycle of specialisation and exchange, or instead lead to the Malthusian trap of subsistence production and autarkic economic relations.

So-called solutions that take the rules of the game as given are doomed to fail. The 'searchers' don't need the West to continually reinforce those rules and empower their fellow planners; they need to continue to push the boundaries of predatory institutional environments through entrepreneurial gambits.

In studying economic systems we have to distinguish between factors we treat as fixed and

given, and those that are variable and subject to change. In the simplest formulation, an economic system is made up of resources, people and the rules under which people interact with nature and with one another. Resources are given by nature, and the distribution of talents and virtues of a population are fixed at any point in time, but the rules that govern the interaction between individuals and nature, and between individuals and individuals are subject to change. Thus, not only does the logic of the argument in economics and the weight of evidence on the development experience lead to a focus on the rules of governance and public policy, but practicality leads us there as well. It would be nice if nature could be manipulated so that there were more navigable waterways in Africa, or the disposition of the population was one of greater human capital, but for the time being the important issue is that the incentive to develop technologies that would overcome nature's disadvantages or for individuals to overcome the accidents of history and invest in improvements in human capital will result only from a change in the rules.

### Solutions to poverty

So we come back to the basic premises of *Enterprise Africa!*. Solutions to the extreme poverty in the region will come from Africans themselves and not from government agencies and experts from afar. It is about realising the gains from trade and the gains from innovation and curbing the predatory predilections of governments. We are witnessing a flourishing of economic activity at ground level that is improving the lives of numerous individuals and those in their communities, and also finding alternative governance structures and policy regimes. These are the details and particulars most likely to succeed, yet so often missed by the conventional development discussion.

In this symposium we read about how cellular phone technologies are overcoming inefficiencies in the basic infrastructure and lowering the costs of doing business in Botswana; how commercial developments in Rwanda are serving to heal the deep wounds and reconcile the conflicting parties from the tragedy of the ethnic conflict from the 1990s; what we have learned through empirical research over the past decade about the policies of economic freedom, economic growth and the Millennium Development Goals concerning human development; and the 'fair trade' and 'free trade' debate in the coffee industry. A common theme in all these studies is how the entrepreneurial initiative (and the high-quality institutions of governance required for encouraging productive entrepreneurship) of some can alleviate extreme poverty and ease social conflicts.

The market economy is not only ruthlessly efficient with regard to calculating the costs and

benefits of alternative activities. The market economy is also a civilising force in society. Any argument for market solutions to economic development should stress not only efficiency and growth, but also how the social co-operation through the division of labour reduces social conflicts and promotes economic co-operation among strangers and sometimes previous enemies. Markets teach us to co-operate as we learn to respect private property, take responsibility for our actions, and honour contracts. But if predatory behaviour is instead encouraged by the governmental regime, then violence and social strife will dominate. Unfortunately, Africa is a continent that has experienced too much predation and too few gains from trade and innovation. The Smithian virtuous

cycle has not been allowed to displace the Malthusian trap of subsistence to the great misery of millions. Foreign aid programmes do not address this systemic problem, and in fact could be argued to exacerbate the problem by subsidising corrupt and oppressive regimes. But hope can be found in rule changes which limit government predatory power, curb corruption and unleash the entrepreneurial spirit of Africans.

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