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April 2010

Creative Capitalism

*Them that's got shall get,
Them that's not shall lose.
So the Bible said and it still is news.*

"God Bless the Child", *Billie Holiday*.

I'm not sure who exactly was the first person to have used the term Creative Capitalism but the first time I heard it coined was by Bill Gates in Davos in January 2008. And since then it has been used somewhat loosely in other derivative forms such as Creative Capital and Creative Fund and have even seeped into the IT side of Creative Economy which is altogether a different thing. Albeit Gate's background being in IT and how he has all along been associated with a vibrant and creative company - Microsoft - that he founded and built into a US\$260 billion market capitalization company, Bill Gates meant none in that IT context when he spoke about Creative Capitalism.



Let me first tell you what I think Bill Gates meant. In macroeconomic terminology, goods clear at a price equilibrium, that is, where aggregate demand optimally meets aggregate supply. Notwithstanding price-tiering which is a genteel word for price discrimination, this price at equilibrium maximizes sales. Insofar as this price per unit is above its cost per unit, corporations like and pursue this concept of sales maximization. Put another way, suppliers will supply as many units as there are demands at this price. Let's call this "Normal Capitalism".

Adam Smith wrote of his Invisible Hand that: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." Capitalism as we know it and practice it depends on people being selfish. You don't have to intend good to achieve good.

The problem with Normal Capitalism is that there is a very large unserved demand below the price equilibrium. In other words, the poor would demand cars too but they're priced out of their reach. That doesn't seem like a cause many would be sympathetic towards. That seems

more like the demand of a spoiled high school graduate. Bill Gate's Creative Capitalism deals with funding the supply to such demand for goods that are below the price equilibrium to serve the poor on mostly basic needs such as medical cures for Cholera and Malaria shots. He's talking about the C.K. Prahalad's Fortune At The Bottom of the Pyramid stuff. This is Mohamed Yunus and his Microfinance. So if I may dwell on the semantics: the demand is more about needs and not wants.



John Maynard Keynes once quipped that "madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back". I must disclaim that what I write here is not an attempt at originality but more so at providing clarity in a term – Creative Capitalism - that many academics and pundits have labeled nebulous. So I hope no dead economist will be writing me to ask for royalty payments on some metaphors or parallels I use here that they may have used prior. If I didn't quote sources or credit them it is because I have forgotten which academic scribblers I read from.

Capitalism is modeled and regulated on one price per product and that's the clearing price at equilibrium. If we're talking about shampoo then the best shampoo is priced at some highly-pegged level while any lower priced shampoo will just have a lower quality. That's for the purpose of market segmentation. The argument is that it's immoral to segment basic needs such as basic immunity shots that will save lives that some children get them while less fortunate children do not based on affordability. The reality is that the world and therefore the world of commerce is segmented into the haves and the have-nots.

But in Creative Capitalism, Gates is talking about a pharmaceutical company who can manufacture the cure for cholera that can be marketed at, say, US\$10 a shot in a Capitalistic market while the very same product can be sold into a confined market for the poor in Africa or Cambodia for less than a dollar. An example of this effort is the GAVI Alliance (formerly known as the Global Alliance for Vaccines and Immunisation). GAVI is a public-private partnership of governments, UNICEF, the World Health Organization (WHO), the World Bank, the Bill & Melinda Gates Foundation, vaccine manufacturers, civic societies, and governmental public health sector. Such effort has saved millions of lives providing immunity shots against hepatitis B, Haemophilus influenzae type B (Hib), pertussis, measles, polio, and yellow fever to the rural poor in Africa amongst them. Gate's Creative Capitalism aims at transcending the *monetary divide*.

So what we're saying here is that if we set the price of a cholera shot at x dollars which is the price equilibrium then we are addressing the average affordability of the addressed market. This addressed market is, however, not the total population. This is the problem with averaging. Hot and cold water when mixed provide a comfortable average temperature. But if you submerge your left foot in a bowl of cold water and your right foot in a separate bowl of boiling water then can you say that on average you feel fine? The Bill & Melinda Gates Foundation is looking to find ways to mix a bit of cold water at a subsidized price to the hot

water to make it overall comfortably warm. Bill Gates is promulgating an extra pair of Invisible Hands to help the poor lift themselves out of systemic poverty.

*Yes, the strong gets more,
While the weak ones fade.
Empty pockets don't ever make the grade.*

A few weeks ago, I watched John Park voted out of American Idols after he sang God Bless The Child. After Simon Cowell commented that Park was not a contemporary artist by picking that song, Park repeatedly said that the reason he picked that song was because that's what his life was all about. So I began to pay attention to the lyrics and I realized that the common tragedy of poverty is that they're so down there isn't a way out unless that extra Invisible Hand help pull them out.

*Rich relations give
A crust of bread and such.
You can help yourself
But don't take too much.*

Gate's Creative Capitalism revolves around key points including: 1) market caters to *demand* and not to *needs*; 2.) the free market system has its weakness in that the Invisible Hand *achieves good* and even *achieves better* on average but ignores those who suffer from systemic poverty; 3.) the result of (1) and (2) causes a even larger disparity in wealth and standards of living: *monetary divide, educational divide, and medicare divide.*

The Arguments Against Creative Capitalism

Since this Davos speech, economists and pundits have actively criticized Bill Gates' Creative Capitalism as an antithesis to the current *normal capitalism* that is a tried-and-tested workable model. Some have argued that had Bill Gates taken his own Creative Capitalistic medicine when he first started Microsoft and had he in the process diverted resources away instead from using them in trying to maximize profits then most likely he won't have this much wealth to be practicing and preaching this Creative Capitalism.

The pundits say that Adam-Smithian corporations should pursue maximization of profits and they can use dividends received thereof for philanthropy if shareholders wish to do so. Nothing new here, they say, "it's called a charity". Other pundits are saying again nothing new and that corporations already practice this benefits to the greater goods: it's called Corporate Social Responsibility a.k.a. CSR.

So if Creative Capitalism is not just a charity foundation and not CSR then what exactly is it? It seems to me that Creative Capitalism is a potpourri of things including charitable foundations, development capital, subsidies, and NGOs. Creative Capitalism combines the aforementioned resources creatively to serve a free market demand at price equilibrium while using additional supplies to serve the needs of the poor via tiering down the price of that same goods to the marginal cost. It's not a new system to replace Capitalism. It is a supplement. It is an extra pair of Invisible Hands.