



Keynote

- Speaker: **William H. Gates III**, Co-chair, Bill & Melinda Gates Foundation

Overview

While capitalism has been successful in many parts of the world, there are numerous examples of market failures. The results of these failures affect the health, education, and economic well-being of many of the world's citizens.

In assessing some of the world's most critical market failures, the Bill & Melinda Gates Foundation has identified specific problems that it seeks to address, adapting business practices (such as scorecarding) to maximize the results and impact of the foundation's funds.

But assisting the poor is not just the responsibility of philanthropists. American businesses can and should positively influence the outcomes of the world's poor by channeling some of their unrivaled innovation capabilities into tackling some of the world's major issues. This is both the right thing to do and can create future market opportunities.

Context

Bill Gates answered questions from Professor Emeritus James I. Cash about the philanthropic efforts of the Bill & Melinda Gates Foundation and about what American business can do to help solve the world's biggest problems.

Key Takeaways

- **The focus of the Gates Foundation is to provide assistance where capitalism has fallen short.**

Over the past 100 years, capitalism has been enormously powerful. It has helped improve health and living standards around the world, and has helped hundreds of millions of people move out of poverty. Yet, as powerful as capitalism has been, there are numerous instances where capitalism falls short, where market failure takes place.

An example of market failure: Because the poorest countries in the world have no money, there is no economic incentive for pharmaceutical companies to invest in developing and producing drugs to fight the diseases that affect the populations of these countries. (Ten times more money is spent developing a cure for male baldness than developing a cure for malaria, despite the fact that malaria kills 1 million children per year. The reason: There is a profitable market for male baldness, but no such market for malaria drugs.)

"The Gates Foundation steps in where capitalism falls short."

— Bill Gates

The Gates Foundation is focused on addressing market failures in three areas:

- *Global health.* Fifty percent of the foundation's funds are spent on infectious diseases. The top five are malaria, tuberculosis, AIDS, diarrheal diseases, and respiratory diseases. These five diseases account for the majority of the difference in health outcomes between the poorest and the richest.
- *Assisting the poorest in the world.* Twenty-five percent of the foundation's funds assist the poorest people in the world in ways other than health care. This includes supporting programs in areas such as financial services.
- *Education in the United States.* Twenty-five percent of the foundation's funds are devoted to trying to improve high schools and community colleges, with efforts focused on educational experimentation.

In many parts of the world, sound governance combined with medical innovation (such as low-cost vaccines) has resulted in dramatic improvements in health. For example, the number of children dying before the age of five has been reduced significantly, with low-cost measles vaccines playing a key role. As a country's health improves, population growth declines, and the country is in a better position to develop economically.

Much progress has been made in improving health and alleviating poverty in countries such as China, Mexico, Brazil, and India. Still, today about 2 billion out of the world's 6 billion people are caught in the trap of poor governance, poor health care, and poverty. The Gates Foundation is focused on these 2 billion people who desperately need assistance; the foundation's goal is to try to break the cycle that exists. The Gates Foundation often gives grants to governments, and has a philosophy that the local government has to ultimately take over the responsibility for the health care of its people. In countries with poor governance, this cycle is very difficult to break.

- **Scorecards are key to evaluating the effectiveness of the foundation's performance.**

While there is a great deal of wasted money in the non-profit world, the Gates Foundation is reapplying business practices to how it measures its success. Specifically, the foundation uses clear and specific scorecards to set goals and measure the results of every program it funds. Examples of measures include the number of malaria deaths, the number of people getting AIDS each year, and the income of dairy farmers in Africa.

"We are giving \$3.3 billion per year, half of which comes from Warren Buffett. That is enough money for high expectations that something dramatic will come from it."

— Bill Gates



Thus far, the hardest area in which to use a scorecard and measure results is working to improve education in the United States—it is extremely difficult to measure results in the educational system. (Part of the problem: There are no national standards; “the Republicans oppose ‘national’ and the Democrats oppose ‘standards.’”) In addition, there are no incentives for good teachers and there is little sharing of best practices. In the absence of metrics, creating success models that can be reapplied is difficult. The result is that 25% of society is well educated, goes to college, and provides business leadership and innovation. The other 75% is not educated and faces a tough time competing in the global workforce.

- **Corporations should pursue “creative capitalism,” where some of their resources are focused on innovating to assist the poor.**

The power of American business innovation is unrivaled. American businesses have an opportunity and a responsibility to engage in “creative capitalism.” This means using their innovation power to develop products and services to assist the poor. Amazing accomplishments could occur if companies took 5% of their best innovators and had them examine the needs of the poorest in the world in the context of their realm of expertise. Drug companies, cell phone companies, food companies, and others could do tremendous things to help the world’s poor by tapping into their power to innovate. This isn’t just about giving money; it is about innovation and creating new markets.

“U.S. businesses need to take some of their innovation power and focus it on the poorest.”

— Bill Gates

Beyond helping the poor, such actions will help companies attract top talent. As young people today enter the workforce, they care about the mission of the company they work for and want to work for a company that exhibits strong values.

Other Important Points

- **Perspective on the financial crisis.** Mr. Gates views the current financial crisis as fascinating. It shows the dangers of leverage and the naiveté of those who took enormous risks, expecting to consistently earn returns of 10% to 15%. We are now experiencing a double whammy of a financial/credit crisis and an economy in recession. Consumer confidence has been killed, unemployment will rise significantly, and there is no telling how long the recession will last. While the recession will be painful, the government can’t and shouldn’t try to prevent it.
- **Population growth.** In 1960, a widely published report estimated that the world’s population would grow to 20 billion. However, it now appears that worldwide population growth will max out at 8 or 9 billion. Almost all of the world’s population growth today is concentrated in some of the poorest areas, including northern India, Bangladesh, Nigeria, and Pakistan.
- **Philanthropy in the developing world.** The United States has a long history of philanthropy, as rich individuals have given back in a thoughtful way. This is best reflected through the forward-thinking Rockefeller Foundation. However, since wealth is relatively new in places like China and India, there is not yet a tradition of philanthropy in these countries. How the wealthy will behave is not clear. Hopefully, they will follow the lead of U.S. philanthropists.