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Competition Policy, Consumer Protection, and Economic Disadvantage†

William E. Kovacic∗

I. INTRODUCTION

In 2007, the People’s Republic of China adopted its first competition law and joined a roster of over 100 nations that have enacted competition statutes. Until recent decades, the majority of these jurisdictions, like China, had relied entirely or completely on central planning to organize their economies. Judging from the status of current competition law drafting projects, the list seems likely to grow by a few countries each year.

For those of us of a certain age, these events are most improbable. An episode from my undergraduate years in the early 1970s suggests why this is so. My study of economics began with the traditional introductory survey course. The required readings included The Great Ascent,1 Robert Heilbroner’s influential analysis of economic development. Heilbroner admonished countries with democratic political institutions and market economies to accept the inevitability that central planning was the only suitable course for what were called Third World nations to achieve substantial economic growth.2

My instructor wrote his Ph.D dissertation for Heilbroner and revered his advisor’s views. The final examination included a heavily-weighted question that directed students to discuss the most

† This Essay was prepared from a speech originally delivered in October 2006 at Washington University in St. Louis School of Law as part of the 2006–2007 Public Interest Speaker Series.
2. Id. at 148–49.
likely and beneficial path for economic development in the Third World for the remainder of the twentieth century. I told the examiner exactly what he wanted to hear and stepped three favorably-graded credits closer to the baccalaureate degree.

I sometimes wonder what would have happened if had written something along the following lines on that examination in 1971: “By the year 2000 the Soviet Union will dissolve. Its former republics and the nations of what we now call the Warsaw Pact will embrace sweeping, market-oriented reforms. The Berlin Wall will fall by the end of the 1980s and the two Germanys will be unified under the liberal political and economic institutions of West Germany. The European Union soon will enlarge its membership to add countries as Hungary and Poland, as well as newly independent states such as Estonia, Lithuania, and Slovenia. Greater reliance on market-based economic systems also will encompass numerous countries in Africa, Asia, the Indian Subcontinent, and Latin America. Among these will be South Africa, which will undergo a largely peaceful handover of political power to the nonwhite majority and will enact a new competition law. The Socialist Republic of Vietnam, which by the mid-1970s will prevail in the war the United States, will use market reforms to spur growth in the 1990s and will welcome the restoration of diplomatic relations with the United States, and the opening of a U.S. embassy in Hanoi, by the decade’s end. And China will transform its economy with market reforms. Only a few states will sustain an adamantine, inflexible opposition to capitalism.”

Had I said so, I strongly suspect I would have failed the course. One did not have to be an admirer of Heilbroner in 1971 to regard this forecast as delusional. At the time it would have been reasonable to interpret my hypothetical predications as a certifying mark of an inability to understand how the history and political science of the twentieth century ensured that such a scenario could not come to pass.

The modern embrace of market-oriented reforms, including the widespread adoption of competition laws, is one of the most remarkable stories of our time. But the narrative is by no means
finished. There is an active debate about whether the market reforms of recent decades have set out the right path for economic progress.³

The debate over market reforms in formerly planned economies has raised three basic questions about competition law and its place in market reform.⁴ First, is competition law a distraction from more urgent reform priorities? Does the creation of a competition policy system wrongly divert attention from the development of other institutions that (e.g., mechanisms that facilitate the creation and enforcement of commercial contracts) make stronger contributions to economic growth?

Second, are competition laws modeled on the statutes of countries with well-established market economies prone to misapplication in the circumstances in which most transition countries will implement them? For example, will merger control provisions or controls on abusive behavior by dominant enterprises inevitably become mechanisms by which frail and politically buffeted competition agencies reestablish the type of state orchestration of the economy that market reforms were designed to eliminate?

The third question is whether the market rivalry that competition laws seek to stimulate makes truly useful contributions to economic development.⁵ Does the implementation of a competition law help reduce poverty? Or does the execution of the competition law in a transition economy become little more than an exercise by which elites in the civil serve and the private sector shuffle paper with little concern for the alleviation of economic misery?

This Essay discusses how well-conceived competition policies can serve the poor and reduce barriers that reinforce economic

³. Extensive treatments of this issue appear in TOWARD PRO-POOR POLICIES: AID, INSTITUTIONS, AND GLOBALIZATION (Bertil Tungodden et al. eds., 2003).
⁵. For an excellent discussion of the place of competition law as an instrument of poverty reduction in developing countries, see Eleanor M. Fox, Economic Development, Poverty, and Antitrust: The Other Path, 13 Sw. J. L. & Trade Am. 211 (2007).
disadvantage.\footnote{By “competition policies,” I mean a mix of instruments that includes law enforcement, advocacy before other public agencies, education, and research. The successful competition agency should have and use all of these tools.} It first identifies some of the phenomena that competition policy programs usefully can address to improve the welfare of economically disadvantaged populations. The Essay then describes how consumer protection programs can complement competition policy measures by punishing and deterring serious fraud. The paper concludes with reflections on the broader contributions to social welfare that competition and consumer protection programs can offer. In addressing these topics I have sought to draw upon examples from my own experiences in the United States and in technical assistance projects.

II. COMPETITION POLICY AND POVERTY REDUCTION

In reviewing experience with well-established market systems and transition economies, I am struck by the number of ways in which programs to curb private and public trade restraints can deliver special benefits to poor populations. In this section I discuss several categories of initiatives that can help serve the aims of poverty reduction and otherwise improving the well-being of a nation’s less affluent citizens.

In reviewing these topics, I make two basic assumptions about economic development. The first is that entrepreneurial DNA is spread randomly across the world’s population and across the political subdivisions of a single jurisdiction. No single nation, state, province, or municipality receives an unusual endowment. Jurisdictions that place the fewest artificial impediments in the path of people who have that DNA are likely to prosper more than others. This is especially true in the case of new business development by individuals who are seeking to form and operate businesses in conditions of poverty.

My second assumption is that work—the process of earning a living—can give us a great sense of personal fulfillment. Conceiving a new idea for a product, finding a better way to provide a service, teaching a good class, or countless other activities that we place in...
the category of work can be profoundly creative forms of expression. A society that places the fewest unnecessary barriers in the path of the realization of these talents is likely not only to be more prosperous but might achieve higher levels of personal satisfaction, as well.

A. Focal Points for Competition Law Enforcement and Advocacy

In the discussion below, I focus on areas in which increased competition and the removal of artificial barriers to the entry of new entrepreneurs and the expansion of small enterprises can generate particularly strong benefits for the economically disadvantaged. Economic performance in areas such as communications, public procurement, and transport affect the lives of consumers in immediate and observable ways, and the success of existing or prospective business ventures depends heavily on them. Reduce the cost or improve the quality of services in any of these sectors, and you are likely to realize greater economy-wide productivity and witness gains in consumer well-being.

1. Public Procurement

One of the most important contributions of competition policy to poverty reduction is the deterrence of supplier collusion in public procurement. Even small improvements in the performance of public procurement programs can yield large social benefits, especially for the least affluent citizens. Public procurement outlays account for just under twenty percent of GDP in the United States; in formerly planned economies, the state’s share can exceed fifty percent. Many of these expenditures are for infrastructure and social services that are

designed in large measure to assist economically disadvantaged populations.

In many of the world’s economies, cartels and bid-rigging arrangements in the construction sector have dramatically raised the cost of building roads and hospitals and have increased the price that public agencies must pay to provide services such as meals for school children. Cartel overcharges can account for ten or more of the total value of a specific procurement. Well-established market economies such as the Netherlands and the United States and transition economies such as Hungary and Mexico have assigned a high priority to challenging such arrangements. Even dollar saved by deterring procurement cartels is an additional dollar that can improve the lot of intended beneficiaries.

An important side effect of the enforcement of competition laws is to discourage fraud in public procurement. A number of competition laws contain provisions that either bar public authorities from giving exclusive licenses or no-bid contracts to business managers or require approval for such arrangements from the head of state or the national legislature. By limiting the ability of a procurement official to deliver on a promise to provide valuable contracts in return for a bribe, these restrictions can make it more difficult to execute corrupt agreements. Given the amount of public expenditures that are intended in principal to serve poorer citizens, a reduction in bribery can help the state get greater benefits for its poverty reduction programs.

2. Transportation

Few areas of economic activity are more important to national prosperity than the networks that transport people and goods throughout a jurisdiction. Examples from my experience in Morocco in the 1990s illustrate the point. The first involved the ornamental

10. See Kovacic, Institutional Foundations, supra note 4, at 296–97.
flower market. The growing of ornamental flowers had become a promising area of new entrepreneurship in Morocco, with Europe providing the main source of demand. Researchers found that the growers, many of them small enterprises, faced at least three serious obstacles in getting their products to European destinations.

The first was a transport cartel. The trucking operators who carried the flowers from the farms to Morocco’s main airports in Casablanca and Rabat colluded in setting their rates. The second was a cartel of freight forwarders who packaged and processed shipments at the airports. The third obstacle consisted of government policies that limited the number of air carriers that served European cities. This three-stage system of restrictions artificially raised the delivered price of the flowers and reduced the sales that Moroccan growers otherwise would have achieved.

In jurisdictions such as Indonesia and Mexico, one of the greatest sources of improved economic performance has been the introduction of competition into the commercial airline sector. Mexico is a large country. Until recently, a state-owned enterprise provided all domestic service. The incumbent carrier’s high rates meant that only comparatively wealthy business operators or individual citizens could fly. Owing to the advocacy of the Competition Commission of Mexico (CCM), the country chose to permit new carriers to compete for service on domestic routes. Competition has reduced fares and improved service. This increases the ability of business managers to visit suppliers and customers. With lower fares, Mexican citizens can take airplanes when the only affordable way to make a long journey to visit friends or families within the country was an unspeakably difficult bus ride.

3. Banking

Another example concerns the banking sector. We interviewed representatives of Morocco’s major banks and learned how the banks set interest rates for savings accounts and loans. Every week or so, representatives of the principal banks would meet and agree about the rates to be paid to depositors and the rates to be charged to borrowers. Not only did the banks agree not to compete to persuade individual consumers to create savings accounts, they also artificially raised the
rates that commercial firms—including small business operators—would have to pay to obtain loans.

Direct controls on the formation of new businesses tend to be still more severe in the case of financial services. In many cases in transition economies, these controls go well beyond the prudential requirements that most jurisdictions impose to ensure the integrity of the banking system. Too often the excessive restrictions seek to protect incumbent enterprises, especially state-owned institutions, as an end in itself. This diminishes rivalry in the provision of financial services, including competition to devise lending terms and instruments of interest to new or small enterprises.

Our project in Vietnam showed how unnecessary restrictions on entry into financial services harms the owners of small enterprises. It is possible for small firms to enter and enjoy some measure of success without recourse to such basic financing tools as a line of credit from a bank. An entrepreneur can accumulate funds to get started from family members, friends, and customers. These means can help raise perhaps a hundred thousand dollars or more, but they are inadequate to obtain the million-dollar loan that permits a significant expansion of operations.

We spoke in Hanoi to the owner of a small shop that had repaired and refurbished bicycles. His experience had taught him a great deal about the design of bicycles, and his aim was to build his own production facility. He unsuccessfully sought loans from the incumbent state-owned banks, which expressed concern about annoying the existing state-owned bicycle producers, which were clients of the banks. One cannot be sure that a more competitive banking sector would have provided this entrepreneur a loan, but it is certain that the existing configuration of banks would not.

4. Professional Services

Most jurisdictions regulate entry into and participation in professions such as law and medicine. There is broad agreement that some level of public intervention is necessary to certify qualifications and to ensure that the providers of professional services give truthful, comprehensible information to the typical layperson client. Many jurisdictions, acting through public agencies or professional
associations, have used concerns about quality control to prohibit all advertising for professional services, to bar price competition, and to impede the use of trained para-professionals to perform various tasks.\(^\text{11}\)

The restrictions recited above have the tendency to raise the price and limit the availability of the services in question. For the higher range of the income distribution, these affects may be annoying but they are tolerable. Individuals with means can afford to pay the additional cost of a routine fluoride treatment or a real estate closing. For the poor, the price increases that result from unnecessary restrictions put the services out of reach, even in jurisdictions that provide some form of public assistance or impose obligations on members of a profession to offer services free of charge to those in need.

A substantial body of empirical literature shows that policies that permit truthful advertising and price competition substantially reduce the price of such services without a reduction in quality for clients. Increased competition not only has reduced prices but also has stimulated innovations in service design and delivery. These changes have society-wide benefits, and they are particularly significant for lower income individuals.

An example from recent FTC experience illustrates the point. Early in this decade, the South Carolina legislature adopted a statute to increase the ability of public school systems in the South Carolina to have dental hygienists provide fluoride treatments and other forms of preventive dental care to students.\(^\text{12}\) The student population in the schools in question consisted heavily of children from families with low incomes. Many of these children were African American. Despite the reform legislation, the South Caroline State Board of Dentistry sought to impose a requirement that a dentist examine each student before the paraprofessional applied the fluoride treatment. Fulfillment of such a mandate would dramatically have reduced the


number of students who could receive preventive dental care. The FTC successfully challenged the State Board’s policy on the ground that it contradicted a state law that authorized fluoride treatments without the immediate supervision of a dentist. The Commission emphasized that adherence to the State Board’s policy would have denied the students treatments without ensuring attainment of any quality of service objective.

5. Incorporation and Licensing Requirements

In the 1990s Vietnam’s companies law supplied an imposing barrier to the incorporation of new firms. In the United States and many other countries, the establishment of a new company requires the payment of a modest fee and the filing of a simple registration form that lists the name, address, and directors of the new enterprise. Vietnam’s registration process required the applicant to identify the nature of its intended line of work and to present a summary of its business plan. Members of the ministry responsible for registration and of Vietnam’s Socialist Party would review the application and evaluate, among other matters, the need for the establishment of the applicant’s enterprise and the wisdom of the business plan.

The reviewers were likely to deny the application in two circumstances. The first was when the applicant sought to enter a line of commerce already occupied by other firms, especially one or more of Vietnam’s state-owned enterprises. In such cases, the establishment of a new firm would be considered “redundant” and therefore “unnecessary.” The second circumstance was that the reviewers perceived no value in the proposed business plan or thought the applicant incapable of conducting the business successfully. If the ministry officials and party members thought the business planned to offer something that Vietnamese citizens would not care to purchase or did not need, they would disapprove the application. As part of a major retooling of the companies law, Vietnam abandoned these restrictions and put the country’s registration on largely the same footing that one sees in older market economies.

I sometimes have tried to imagine how the application of Vietnam’s now-forsaken business registration screens might have
affected the development of the U.S. economy. Two examples come to mind from the 20th century. The first will perhaps be familiar to those who have lived in the St. Louis area or studied the history of the American aerospace sector. In the late 1930s James McDonnell set out to establish a producer of aircraft parts and subassemblies in St. Louis. The field already was occupied by a number of prominent private companies, such as Boeing, Curtiss-Wright, Grumman, and Lockheed, and government-owned design bureaus at that time played a major part in the design and development of combat aircraft. McDonnell eventually approached James McRoberts, the namesake of a St. Louis law firm and asked him to incorporate his new firm. Apologizing that he could not compensate McRoberts or his firm lavishly for this service, McDonnell said he would remember their generosity if things turned out well. And well they turned out. McRoberts filed the simple incorporation documents for the McDonnell Aircraft Company in Maryland and began a relationship that served the engineer and his outside counsel splendidly for decades to come.

Suppose that, instead of using the quick and austere registration process for the State of Maryland, the incorporation laws had obliged James McRoberts to show that his client’s idea was neither redundant nor improvident. A redundancy check might have knocked McDonnell out because significant incumbent private firms and government-owned bodies already occupied the field amid a catastrophic economic depression. However energetic, hard-working, and determined the creator of the proposed McDonnell Aircraft Company might have seemed, the registration committee might have concluded that he was not up to the job and ought to apply his talents in other pursuits. It would have appeared improbable that the proposed enterprise, which would begin its operations by serving as a mere subcontractor to the well-known system integrators of the time, someday would design and produce, among others, the Phantoms, Eagles, Hornets, and Mercury spacecraft that would become legends in America’s aerospace history.13

The second story begins with a photograph taken in the mid-1970s in New Mexico of the employees of a newly-formed business called Microsoft. The clothing and grooming styles are heavily influenced by counter-cultural impulses. One co-founder—the person whose name would become most closely associated with the enterprise—looks exceedingly young.\textsuperscript{14} The proposed Microsoft Company easily could have failed a pre-reform Vietnamese registration process. In a world of IBM, it would be easy to classify the new venture into the computer sector as redundant. And the registration committee might have doubted that the odd collection of entrepreneurs would carry this off, much less aspire to surpass IBM and countless other corporate luminaries and become the most-heavily capitalized enterprise on the planet before the century came to a close.

6. Tax Policy

A jurisdiction’s rules that govern the formation of a company are only some of the many ways in which the state determines how readily new entrepreneurs—especially prospective business owners with limited means—can try their ideas in the marketplace. Tax policy is another. When the state sets extraordinarily tax rates on business earnings, entrepreneurs have strong incentives to operate in the shadow of the law in what is called the “informal sector.” By choosing to operate in the informal sector, business operators escape high tax rates but forfeit recourse to legal protections, such as recourse to the courts to enforce contracts and access to capital formation tools that are sanctioned by law, that are available to properly registered companies. To the extent that poorly conceived tax and regulatory policies drive entrepreneurs to the informal sector, economic development will be less robust than it would be otherwise.

In the late 1990s, I saw this difficulty firsthand in the course of a competition policy reform project in Benin. Our research team interviewed the owner of an photocopying shop in Cotonou. We


\textsuperscript{14} Bill Gates recounts some of his experiences in the formation and growth of Microsoft in Bill Gates, \textit{The Road Ahead} (1995).

http://openscholarship.wustl.edu/law_journal_law_policy/vol25/iss1/7
entered what seemed to be the main working area of the shop, which contained a small number of copiers and other machines in obvious disrepair. We asked the owner how his business survived. He took us into the back room, which bustled with activity. Large charts on the wall indicated the location of and assignments for a fleet of trucks that the owner operated as an informal adjunct to his copying firm. “The copying business is properly registered and is subject to tax rates of about ninety percent. It makes no money and reports no earnings,” he said. “The copying firm is the front for my trucking business, which is not registered and is the main source of my income.”

We learned that well over two-thirds of trucking in Benin was conducted by “informals” whose presence the state had to tolerate lest the transport sector in the country collapse. Seen one way, this permitted the development of a crucial transport infrastructure in the country. Yet the tax rates and other onerous regulatory hurdles stunted the growth of what could be a far more effective system for moving goods throughout the country. If trucking companies entered the formal sector, they would have recourse to financing and legal protection that would facilitate expansion. “I would buy more trucks and build better warehouse facilities if I my trucking business was registered and incorporated,” explained the owner of the copying shop.

7. Communications

For most of the 20th century, most jurisdictions relied on a single firm to provide telephone service. In return for a promise to serve the entire jurisdiction at reasonable rates, the incumbent telephone company was granted an exclusive franchise and protection from competitive entry. In many countries, businesses and individuals suffered lengthy waits—sometimes years—to obtain land-based lines. In the poorest jurisdictions, no more than twenty percent of residents had telephone service.

Beginning in the 1960s, a series of technological innovations shook the foundations of the single-provider, regulated monopolist approach to telecommunications policy. Among the most important was the advent of mobile telephony, which created strong
possibilities for competition among rival mobile service providers. This development forced rich and poor jurisdictions alike to decide how many operators to license.

Jamaica’s competition authority, the Fair Trading Commission, played a major role in this decision as an advocate before the country’s telecommunications regulator. The JFTC argued that the regulator should issue licenses to at least two service providers. Jamaica chose to issue multiple licenses and set in motion dramatic improvements in telecommunications services. Waiting times for new service plunged, availability soared, and even the poorest neighborhoods now enjoy mobile service. Business operators now enjoy prompt connections to suppliers and customers—a major source of improved productivity and customer satisfaction. In their personal lives, consumers now enjoy the ability to speak by phone with friends and family members with far less difficulty than when land-based lines were the only telecommunications technology. The introduction of competition in mobile telephone has generated broad economic and social gains in Jamaica, and the economically disadvantaged have benefited significantly.

B. The Contributions of Competition Policy

The discussion above has suggested how a competition policy program can eliminate artificial private and public restrictions on competition. Through the enforcement of laws that forbid private or public restraints on business rivalry, the competition authority can dismantle barriers to new business development and play a major role in improving the availability of goods and services to poor populations. Through the use of its research and advocacy tools, the competition agency can identify barriers to competition and seek to persuade legislatures and regulatory bodies to adopt measures—such as the introduction of competition into the commercial airline sector—that yield important economic and social benefits.

III. CONSUMER PROTECTION AND ECONOMIC DISADVANTAGE

Consumer protection laws are important complements to competition policy. Perhaps the most valuable contribution of a consumer protection program is giving consumers confidence in the
marketplace by preventing serious fraud. False advertising and deceptive marketing practices can damage the capacity of honest merchants to attract consumers and create the perception that market-based economic systems are fundamentally unreliable. If individuals fear they are prone to being cheated in many or most ordinary transactions, they will be inclined to take costly precautions and will end up purchasing less.

Some policing of fraud involves purely local commerce. In Nepal we discovered that one of the most important concerns of consumers was short-weighting in retail establishments. Consumers feared that merchants frequently manipulated scales when measuring products such as rice and vegetables, even though one would expect local merchants to work hard to create good reputations with the clientele whose repeat business was necessary for their survival. One could see how public inspection programs or certification by non-government trade associations would identify wrongdoers and allay broader concerns about the integrity of retailing.

Other challenges involve cross-border trade in the form of telemarketing or internet commerce. The telecommunications revolution has greatly reduced the cost of committing fraud. In an earlier era, the wrongdoer would have to visit possible victims, post notices, buy advertisements in print or broadcast media, or mail flyers. The internet makes it possible to reach large audiences at considerably lower cost. The typical internet fraud scheme—be it a promise of miracle cures for grave diseases, astonishing weight loss remedies, identity theft schemes such as phishing, or phony business opportunity promotions—is carried out by individuals or groups who are technologically proficient, geographically mobile, and attuned to gaps in cross-border enforcement arrangements. From our experience at the FTC, it is evident that they exchange what might be called worst practices in their efforts to increase the effectiveness of fraud.

Economically disadvantaged groups can be especially vulnerable to such misconduct. They may be less likely to report apparent fraud to public authorities because they do not know where to turn or may lack confidence in the willingness to public bodies to address their concerns. In some cases in the United States, wrongdoers target populations who principally speak a language other than English and
occupy the lower strata of the income distribution. The language asymmetry makes these victims still less likely to report fraud.

Consumer protection authorities have come to realize the need to develop special programs to address fraud and other consumer protection concerns among economically disadvantaged populations. In the United States, recent examples include the FTC’s creation of a program that seeks to identify fraud directed toward those who mainly or only speak Spanish. Over the past decade, the FTC also has devoted increasing scrutiny to financial services programs that focus heavily on low income individuals. Many jurisdictions have increased educational programs to assist poor populations to take precautions that will reduce the success of fraudulent representations. There is also a growing awareness that consumer protection agencies should devote more resources to studying commerce in poor communities as a way of identifying misconduct, increasing the reporting of fraud to enforcement authorities, and establishing more effective education programs.

IV. CONCLUSION: THE LARGER HUMAN DIMENSION

I began this Essay by suggesting that effective competition policy and consumer protection programs offered two major types of benefits for economically disadvantaged populations: greater economic prosperity and higher levels of individual satisfaction. In the discussion above, I have dwelled mainly on the first. Here I want to close by relating two experiences that focus on the second theme.

In many journeys, I have seen how the elimination of barriers to entrepreneurship yields gains that go beyond higher incomes for the poor. In one trip to Vietnam, I spent time in Mai Chao, a village near the border of Laos. This region had been, and still was, a major rice-growing region. Vietnam’s economic reforms had facilitated the creation of new businesses, and a number of Mai Chao’s inhabitants had formed small businesses to weave carpets, garments, and wall hangings. The small enterprises used traditional designs and built upon skills that previously had been applied for local consumption only. The output of the weavers had attracted a growing and enthusiastic clientele of tourists and traders.
I interviewed some of the weavers and asked them what they thought of their new line of work. Many commented favorably on their success and welcomed the change that had taken them from the rice paddies to the looms. One woman captured a theme that ran through many of my conversations. She relished the switch from rice farming to weaving because she enjoyed weaving and delighted at the opportunity to apply new designs and experiment with new colors in preparing the fabrics. Working through a translator makes one cautious in attributing great significance to any single word or comment. All the same, she and many others spoke of their new line of work as giving fuller expression to skills and talents that gave them pleasure to exercise. The small businesses gave them a chance to explore possibilities that a lifetime in the rice fields never would permit.

My second perspective deals partly with economic disadvantage and more universally with the capacity of access to the market to serve larger social ends. My best day in advising emerging market economies took place in Egypt in the late 1990s. We interviewed furniture makers in Alexandria to understand new business development in the country. Our counterparts told us of the modern evolution of their shops in the wake of national policies that had reduced regulatory obstacles to the creation of small firms and had permitted greater trade with Israel. They explained how their relationship with Israeli merchants had begun at a trade fair where Israeli representatives of a distribution network examined the Egyptians’ furniture and raised possibilities for selling the furniture in Israel.

“At first we approached them very warily,” said our Egyptian counterparts. “After all, these were the Jews from Israel. It was now legal for us to discuss commercial ties, but not socially suitable. But we talked to them anyway.” From these tentative beginnings, a commercial relationship developed. The Egyptians provided the furniture, and the Israelis distributed it to retailers in Israel. The Israelis saw that the Egyptians make good furniture, and the Egyptians saw that the Israelis did a good job of marketing it. The Egyptians described a gradual transformation: “The Israelis went from being the Jews to being our partners. And they became our friends. Oh yes, we made a lot of money in the process.”
In our lives as consumers, it is difficult to have repeated enjoyable encounters with a product or service without having some respect for the people who create and provide it. As those encounters increase, I have faith that the respect will grow as well on both an individual and aggregate level.