

The Coming \$100 Laptop Tragedy

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The earliest mistakes in any major project are typically the biggest mistakes.* Early decisions are important because of all the downstream resources and actions that they commit you to. A case in point is the vaunted \$100 laptop. In case you haven't heard, Nicholas Negroponte, the founding chairman of the Massachusetts Institute of Technology's Media Lab, is pushing ahead with his plan to make a \$100 laptop that will be distributed to millions of young people in poor countries around the world. Few people admire Mr. Negroponte more than I do, but his plan for how to distribute the computers is a tragedy in the making.

First, let's be clear on what is not tragic: the plan to produce a laptop that can sell for around \$100. This would be a boon even if there were no plans to distribute them. Any time someone comes up with an improved technology or a technology that sells at a low price, society benefits. (I'm assuming, of course, that the technology is pro-wealth-creation and not anti-wealth-creation: for example, a new way of breaking into houses hurts rather than benefits most of society.) Not just people in poor countries, but also people in richer countries, would benefit from what would be, for many, a disposable computer.

So, where's the problem? In Negroponte's ideas on distribution. On November 17, WIRED NEWS reported:

The MIT Media Lab and Wired magazine founder [Negroponte] stood shoulder to shoulder with U.N. Secretary-General Kofi Annan to unveil the first working prototype of the "\$100 laptop" -- currently more like \$110 -- at the U.N. World Summit on the Information Society here Wednesday.

What seems implicit in the above, and was explicit in an earlier Wall Street Journal news report, is that governments of various poor countries are expected to buy them for their young people. And therein lies the tragedy because governments are very poor at getting resources into the right hands.

Imagine that you're a government bureaucrat tasked to buy, say, one million computers for young people in your country and to hand them out for free. How would you do so? You could do it by handing them out to every school kid -- but

then you would be discriminating against the poorest kids, typically in the rural areas, because a disproportionately high number of them are not in school. You could hand them out to every child (assuming there are no more than one million children), but then you would be discriminating against young people who are just past their childhood. In short, you would have no good criterion for distributing them.

Whose hands would you want them to end up in? An economist concerned about efficiency would want the laptops to end up in the hands of those who value them most. We judge that by their willingness to pay, and the reason free markets work so well is that they get goods and services to those who are willing to pay the most. Note that those who are willing to pay the most aren't always, and aren't even typically, the wealthiest: even poor people regularly outbid rich people for food, clothing, and shelter, which is why poor people survive. But having the government hand the laptops out for free short-circuits this market process.

In reality, two things will happen, one bad and one good. First, the bad outcome. As development economist Jeffrey Sachs used to recognize, poor countries tend to have governments with a lot of power (see his "Growth in Africa: It Can Be Done," *The Economist*, June 29, 1996, pp. 19-21). That's one main reason they remain poor. As Friedrich Hayek pointed out in his classic cautionary book, *The Road to Serfdom*, in countries where governments have a lot of power, the worst tend to get on top. Thus, the powerful bureaucrat who is charged with distributing the computers is not likely to be a particularly ethical or caring person, as maintaining his power is more important to him than raising his people out of poverty. In fact, this bureaucrat is likely to give the computers to his friends or to others who are politically powerful. In many countries, he may even try to sell them.

Which leads to the good thing. Whether this bureaucrat sells them or puts them in the hands of people who value the computers less than other people do, eventually the computers will tend to end up in the hands of those who value them most. Imagine, for example, that someone gets a laptop for free and is inclined to use it as a doorstop. Someone else might come along and offer to pay \$30 for this laptop, an offer that the first person would probably accept since he is

likely to value \$30 more than he values a doorstop. The computer ends up with the person who values it most.

I chose this \$30 number on purpose. The reason is that \$30 is still a very large amount of money for the people at whom this computer is aimed. For some, it could be five percent, or even more, of their annual income. So, there's no assurance that the price would be even close to \$100 and it would probably be much less. So what?

Here's what. I said earlier that economists are concerned about efficiency. Efficiency has two components, one of which I mentioned above, namely, goods and services being distributed to those who value them most. The other component of efficiency is on the production side. We economists hate waste: we hate to see \$100 spent on resources to produce a good that someone values at \$30 because we realize that that \$100 could have spent on goods that people valued at \$100 or more. But there's only one way of making sure that the resources are used to produce something worth more than their cost: have people buy those items with their own money. If they do not value the good at \$100 or more, they will tell you -- by not buying it. If they do value it at \$100 or more, they will also tell you -- by buying it. And no central planner -- as the aforementioned Friedrich Hayek and his mentor, Ludwig von Mises, pointed out -- can get inside people's heads and figure out what value people put on things. The only way to figure it out is after the fact -- did they buy it or not?

Would people in poor countries buy \$100 laptops out of their own money? Some of them would. And if the goal is to get the computers into their hands, then no government program is needed other than to abolish government-imposed trade barriers. Many people in those poor countries -- the vast majority, I suspect -- would not be willing to spend even close to \$100 on laptop. What that means is that they would prefer to spend \$100 on other items -- food, iodine pills for water, DDT, basic generic drugs, maybe a sewing machine. And if their governments are buying laptops for them, the governments are getting the revenues from somewhere. Possibly, Negroponte will be able to persuade Bill Gates or others to cough up many of the funds. But the vast majority of the funds for this \$100-apiece purchase are likely to come from the governments of poor countries, which means they will come out of the hides of those countries' citizens, all but the richest of whom are fairly poor. So what started off as a

completely innocent, let's-help-the-poor- in-poor-countries proposal will end up, with government involved, as just one more way of government using force against its own people to buy goods for them that they regard as luxuries, preventing them from buying the goods that they need to make it to next year. That's a tragedy. And if Negroponte rethinks his strategy, it's a tragedy he can help avoid. He should help get the computers produced, keep a big distance between himself and the likes of Kofi Annan, and then let the market work.

* A fact my co-author and I point out in *Making Great Decisions in Business and Life*.