Why Philanthro-Policymaking Matters

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A rich man without charity is a rogue; and perhaps it would be no difficult matter to prove that he is also a fool.

Henry Fielding (1707–1754)

Six hundred billion dollars is a lot of money, at least for most people. I am not a prime target for charity fundraisers; but still: \$600,000,000,000.00. My eyes get tired looking at the number. In 2010, Bill Gates and Warren Buffett announced, in what became known as the Giving Pledge, that 40 American billionaires had pledged to give at least half of their wealth to charity in their lifetime or at their death. If, as Gates and Buffett hope, all of America's billionaires sign the Giving Pledge, they would give away six hundred billion dollars.

The Giving Pledge does not specify how the charitable money should be spent, but it is clear that Gates and Buffett think that coordinated giving is more effective than a scattershot approach. In 2009, about a year before the introduction of the Giving Pledge, a select group of the super wealthy met in New York to decide which of the world's problems were most pressing and should be the target of high-power philanthropic giving. Paul Harris of the Guardian called it, "[T]he most elite club in the world" (5/31/09). The group, dubbed the Good Club, was convened by Bill Gates, Warren Buffett, and David Rockefeller and is reported to include Ted Turner, Michael Bloomberg, George Soros, and other of the

same level of wealth and influence. The meeting was arguably the most important moment in the emergence of philanthrocapitalism. Harris noted, "[T]he implications of the development of philanthro-capitalism are profound. It was fitting that the Good Club was meeting near the UN. The club members' extreme wealth makes it as powerful as some of the nations with seats inside that August chamber." For those unfamiliar with the term, philanthrocapitalism is the use of business tools and market forces, especially by the very wealthy, for the greater social good.

The Good Club identified global population growth as the problem to target. This is not a choice of a group concerned with public opinion. It veers into the murky waters of women's reproductive rights and religious, cultural, and ethnic politics, and, not least, eugenics. It also highlighted the homogeneity of the world's billionaires. Only 20 of the approximately 1011 billionaires in the world are women, about 2%. By definition they are all extremely wealthy and about half are American.

Supporters of philanthrocapitalism gloss over the demographics of philanthropists. They talk about social programs working or not working—being effective or ineffective. They focus on how good programs can be scaled up and best practices widely disseminated. Critics of philanthrocapitalism do not focus on the amount of money being donated or—although this is less uniformly true—the use of business practices in philanthropy and its search for simple solutions. Critics focus on the policymaking and agenda setting power of the super wealthy.

In other words, supporters and critics of philanthrocapitalism talk past each other because they are not talking about the same things. *The most controversial aspects of philanthrocapitalism are related to the policymaking and agenda setting powers of the new global elite.* These are

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issues that relate to what I term **philanthro-policymaking** and are not core issues of philanthrocapitalism as defined by its major proponents.

I propose that we identify the informal global policy-making powers of philanthrocapitalists and disentangle it from the concept of philanthrocapitalism; they are related but not identical. The Giving Pledge and the Good Club provide useful if imperfect illustrations of how I propose we use the two terms: The Giving Pledge is philanthrocapitalism. The Good Club is philanthro-policymaking.

Philanthrocapitalism

In 2008, at Campbell Apartment, a small, sophisticated New York City bar tucked in Grand Central station above the bustle of 42nd street, a party was held for the release of Mathew Bishop and Michael Green's book *Philanthrocapitalism: How the Rich Can Save the World*. The small room was filled with not only powerful people but also great minds. Bill Clinton mingled like a popular college professor at the Harvard Club. The atmosphere was collegial, intellectual, and optimistic despite the rapidly blossoming financial crisis outside. Bishop, US business editor at the *Economist*, coined the term in a 2006 article "The Birth of Philanthrocapitalism," which made it the idea of the moment.

Some commentators noted the inauspicious timing of *Philanthrocapitalism's* 2008 release. In the economic crisis, non-profits scrambled to get funding in a weak and foreboding economic climate. Bernard Madoff and others had decimated the financial stability of prominent foundations, individuals, and organizations. In the short term, perhaps the timing was inauspicious. Bishop and Green's argument that business techniques are inherently superior to government and charity looked silly in the middle of the government's arguably charitable bailout of the banks. In the long-term, however, the crisis created greater opportunity to bring business sensibilities and market forces into charity by crippling the old ways.

Oddly, a later edition of *Philanthrocapitalism* had a new subtitle: *How Giving Can Change the World*. Were they retreating from their assertion that the rich can save the world? They certainly had not changed it because they thought it sounded better. The new subtitle was undeniably awful. Or was it, as I believe, more a reflection of the authors' lack of interest in discussing what it means for the rich to save the world?

The rich have always shaped social programs. The American philanthropic system, particularly foundations emerged out of a worldview that separated public and private, industry and charity, male and female. The wealthy gave to charity in part to atone for whatever were conceived

of as the sins of business. Philanthrocapitalists want to bring the virtues of businesses to charity. I do not think we can understand the effects of contemporary large-scale philanthropy on global governance, human rights, poverty and health without focusing on the role of the very rich.

In our emerging social and economic systems, boundaries are breaking down. Now everything is rushing forward and jumbling together. Blurring and broken boundaries make the current divide between business and charity almost impossible to sustain. It is a relic from another time. J. Gregory Dees and Beth Battle Anderson in their work on "sector-bending" suggest that we may see more social entrepreneurs employing non-profit, for profit, and hybrid structures to create solutions to social problems. They note that: "This envisioned world may be blurry and indistinct, and even uncomfortable for some who are used to characterizing the business world as greedy and the nonprofit sector as pure and altruistic." Dees and Anderson suggest that the changes bring new opportunities, but ones that need to be assessed carefully before, in their words, "jumping on this bandwagon." The blurring of sector boundaries and the use of private wealth to solve social problems—two hallmarks of philanthrocapitalism—make sense in the contemporary context. This does not preclude serious discussion about the political and social ramifications of sector-bending and other changes on the body politic.

The United States has been a leader in expanding political rights. Our functioning democracy, as imperfect as it is, holds to the ideal that all people should have an equal voice. Philanthrocapitalism is based on a rather flat assumption that what matters are results rather than process. Philanthropy, of course, is not the role of government and cannot be—because it is based on voluntary donation—representative. These aspects of philanthropy are not problematic as long as their political and social ramifications are taken seriously and not brushed off as trivial barriers to progress.

Philanthro-Policymaking

The global elite today is very, very rich. Chrystia Freeland, global editor-at-large of Reuters, who, in her own words, has "spent the better part of the past decade shadowing the new super-rich," notes that "[T]he rich of today are also different from the rich of yesterday." She writes: "Our light-speed, globally connected economy has led to the rise of a new super-elite that consists, to a notable degree, of first- and second- generation wealth ... Perhaps most noteworthy, they are becoming a transglobal community of peers who have more in common with one another than with their countrymen back home." It is this new breed of economic elites, plutocrats to use Freeland's term, that has the money, power, and will to transform

societies. Gates, Pierre Omidyar and Jeff Skoll, among others, are giving significant portions of their accumulated wealth to tackle the world's social problems. Armed with vast capital and networking capabilities they have been able to disseminate new ideas to a wide audience with tech savvy promotions—and make their philanthropic causes both grassroots (i.e. ONE campaign) and celebrity driven (i.e. Bono, Clinton etc.). The technologies they created make it possible to donate to charitable causes—or just “like” them—on Facebook. The new philanthropists bring new ways of thinking in addition to their money.

These are heady times. Quoting Peter Lindert, an economist at the University of California at Davis, Freeland notes that the economic changes we have seen in the last three decades are unprecedented: “Britain’s classic industrial revolution was far less impressive than what has been going on in the last 30 years” in terms of productivity and disruptive innovation. The liberalization of global trade and the revolution in information technology are generating changes that Freeland sees, as do I, as being good on balance but also profoundly uneven.

Money, Markets, and Measurement

If you want to understand philanthrocapitalism, start with the three M's: Money, Markets, and Measurement. Some might add a fourth, Management. The first M, money, is the idea that the wealthy, particularly the super wealthy, should take greater responsibility for using their wealth for the common good. This often is paired with an explicit call for philanthropists to be more “hands on” in their giving. The second M, markets, is the idea that market forces should sort effective social programs from ineffective social programs. The third M, measurement is the idea is that resources should be used in a targeted and rational way based on data in order to identify and scale successful social programs.

Is Philanthrocapitalism New or Just Good Branding?

There is debate over whether philanthrocapitalism really is a new approach to philanthropy or simply an extension of traditional practices under a new brand label. (A distinction can be made between philanthropy and charity, but I will be using them more or less interchangeably in this essay for the sake of simplicity.) I think that bracketing philanthrocapitalism off from previous approaches to philanthropy is analytically useful because it highlights some of the ways in which philanthropy is evolving during a period of significant technological and social change. I am nevertheless sympathetic to those who argue that philanthrocapitalism is a repackaging of old philanthropic ideas and practices.

There is clearly an awareness of branding within the movement. It is interesting to note that the term Social Innovation was chosen for the Obama administration's Social Innovation Fund over the term “Social Entrepreneur.” The prevailing view was that the term “Social Entrepreneur” connoted the business elite while “Innovation” signaled more of a grassroots movement. This is parallel to the replacement of the term “Venture Philanthropy” with “Philanthrocapitalism.” This also seems to be replacing a term—“Venture”—associated with the very wealthy, with a more accessible term “Capitalism.”

International Philanthrocapitalism

Philanthrocapitalism tends to target problems that cut across national boundaries, such as AIDS, Malaria, illiteracy, and population growth. Attempts at social engineering across different cultures may have unintended consequences and face resistance on the grounds of self-determination. In 2005 nearly one out of every ten foundation dollars—an estimated \$3.8 billion, more than twice the total of a decade ago—was spent abroad. Should the global rich have more power to determine social policy for the poor if they agree to pay for it? Will we, the voters, still have a voice in how they are governed? In a global economy, who constitutes “we”? If wealth continues to shift from the West to the East, as it appears to be doing, will those of us in the West still be comfortable with such concentrated power?

It seems foolish to question philanthropists who feed starving children or try to prevent malaria in countries with less government capacity than the U.S. Yet hazards exist. Internationally, Non-Governmental Organizations (NGOs) have a long history of wrestling with the complexity of aid. Alex Larsen, Haiti's Minister of Health, noted that NGOs were functioning in his country as a kind of shadow government without accountability. In a country with such great need and so little governmental capacity as Haiti after the earthquake, expressions of concern about a shadow government may seem irrelevant, but the issue of accountability does deserve attention.

Consider the growing economies of China and India. Bill Gates and others are working to promote philanthropy among the newly wealthy in these countries—whose levels of wealth, we should note, are extraordinary even by Western standards. Some of the new Asian economic elites have shown an interest in building philanthropic infrastructure, but there has also been resistance, particularly in China. Ivy Mungcal a newsletter writer/blogger at Devex Manila, quotes a newspaper in China explaining this resistance: “If there is no transparent mechanism to ensure the money collected by charity organizations is reasonably used, if people encounter ridiculous difficulties when attempting

to donate their assets, and if non-government charitable organizations are always considered a threat to the government that cannot be trusted, then it's not just the wealthy but everyone that will hesitate before giving to charity." There are cultural and institutional barriers to exporting philanthrocapitalism without question. It is also possible that in a capitalist system that is not democratic, such as China, there are even more direct ways for an economic elite to shape policy.

If philanthrocapitalism becomes a more powerful global force, there may be more incentive for the Chinese to participate. If China becomes a more powerful economic force, the social vision of its billionaires will become a more influential part of philanthrocapitalism. We might do well to adopt the Veil of Ignorance assumed in John Rawls' *A Theory of Justice* when considering these questions. What system would we find just if we did not know our position in it? It is more than an academic exercise. We do not know what our position in the global economy may be within a very short time period.

What Could Be Bad about Good?

Proponents of philanthrocapitalism tend to label its critics, even friendly critics, as lunatics who oppose goodness and reason, probably hate apple pie, and maybe kick puppies. Former Ford Foundation director Michael Edwards is concerned about the impact of philanthrocapitalism on social cohesion, democracy, and the ability of non-profits to respond to unsexy social problems. He advocates going back to a system in which a civic space is distinct from the market and government. Similarly, Peter Frumkin argues that some of the logic used to translate business practices to nonprofits is flawed and that much of the language of venture philanthropy is really just new jargon for existing practices. Chrystia Freeland, as previously mentioned, notes the growing economic and political power of a group she calls plutocrats. Neither Edwards, Frumkin, nor Freeland strike me as unreasonable or opposed to goodness, but they are treated roughly in such debates. Oddly, within the pro-philanthrocapitalism camp there is, as Edwards has noted, a "mock civility that turns honest conversation into Jell-O."

Muhammad Yunus

Consider the recent case of Muhammad Yunus, a Nobel Prize winner and pioneer in Micro finance. Micro finance grants are a broad category of very small grants—typically several thousand dollars but as low as \$100 or even lower—given to small businesses such as basket makers without collateral in

low income areas. Often, and quite controversially, micro finance loans are made at very high interest rates, even 100%. Muhammad Yunus is the founder of the not-for profit Grameen Bank. He recently criticized for-profit micro finance banks. The January 15, 2011 philanthrocapitalism.net blog addressed Yunus's criticism of for-profit micro finance by saying: "It may not have been as terrifying as Francisco Goya's depiction of Cronus devouring his children, but the article by microfinance pioneer Muhammad Yunus in today's *New York Times* had disturbing echoes of the story from Greek mythology of the titan who, fearing that his offspring will overthrow him, eats them instead." What is so discouraging about this post is that Yunus is not only a respected pioneer of micro finance, but only 1 week prior, he was still the darling of philanthrocapitalism.net as they, rightly, criticized the Bangladesh government for their apparent attempt to takeover Grameen Bank and force Yunus out. One week later, they literally turned him into a monster because he advocated a position with which they disagree. Admittedly, I am an academic and our rules of discourse and debate are supposed to be different than those of business and politics—philanthropy too. Nonetheless, this kind of attack is beneath the dignity of the people involved. It really stands in the way of the important work that all of those involved are trying to do—including those engaging in the attacks.

Building the Infrastructure of Philanthrocapitalism

The Indian philanthropist, Uday Khemka, remarked, "Relative to the corporate environment, we are in the 1870s. But philanthropy will increasingly come to resemble the capitalist economy.... I want to help develop the infrastructure of philanthropy." It is a new world. The welfare state and traditional philanthropy are no longer well matched to global structures. New infrastructure must be built. In the United States, the federal budget is consumed by entitlement programs and many of the states are nearly bankrupt. The Government cannot fund major new social policies. At the same time, changes in technology make innovative solutions to social problems both more attainable and easier to disseminate. All social change comes to life at the street-level—in banking practices, accounting systems, tax policy, and so on. Here are some key areas to watch.

Capital Markets

Clara Miller, President and CEO of the Non-Profit Finance Fund (NFF) and George Overholser, formerly of NFF, have been leaders in developing non-profit equity systems that they argue are needed to bring the capacity of non-profits to a level at which they are sustainable without an endless

scramble for new funding. In his classic whitepaper “Building is not Buying,” Overholser argues: “Building an enterprise is fundamentally different than buying from an enterprise. And yet, standard nonprofit accounting sheds no light on the building vs. buying distinction. I believe that this missing distinction is a major reason why a market for nonprofit growth capital has failed to materialize.”

NFF has been one of the leaders in the development of a non-profit capital market. As the for-profit and non-profit sectors blend, these institutions are likely to become much more important. The conceptual work being done by Miller, Overholser, and others on non-profit capital markets and new accounting structures, will more than likely end up being more central to for-profit-nonprofit hybrids than to traditional charities.

Nonprofit Stock Markets

Others, such as Howard Husock, Vice President of Policy Research at the Manhattan Institute, and Steven H. Goldberg, author of *Billions of Drops in Millions of Buckets*, are working to create something akin to a non-profit stock market and to help “scale up” successful non-profits based on evidence. There is an important and easily missed distinction between a capital market (bank oriented) and a “stock” market (investor oriented), but simultaneous efforts to develop them both point to the perceived, and probably actual, need to bring the non-profit sector more in line with the for-profit sector. I am very skeptical of the feasibility of a non-profit stock market. (See my “Nonprofit Stock Markets and Social Citizenship,” *Society*, Vol. 44–3, March/April 2007.) But I think the issues of how to measure social good and evaluate non-profits that are being sparked by this idea are valuable.

In terms of accurately measuring “what works”—as one would need to do in Husock’s and Goldberg’s formulations—some problems lend themselves to being solved using scientific evidence. Vaccines, for example, can prevent or substantially reduce devastating diseases. There is a problem: a disease. It has an identifiable cause: a virus. And it can be prevented or limited with an intervention: a vaccine. But there may be other issues such as the lack of infrastructure to deliver the vaccines that do not always lend themselves to evidence-based solutions.

With complex problems, such as the one identified by the Good Club, global population growth, it is much less clear. What is the problem? Too many women having children? The wrong women having children? Women having children they do not want? Women having children others do not want? A lack of education for women? A lack of birth control? Too few abortions? What is the cause? Poverty? Promiscuity? Religion? Power? God?

Illiteracy? What is the solution? Education? Empowering women? A one-child policy? Eugenics? Philanthropists have a right, perhaps even a moral obligation, to address complex problems as well as simple ones. But for complex problems the solution can rarely be determined by empirical measures alone.

B Corps and the Third Bottom-Line

Businesses schools are also championing the idea of a “third bottom line” of social and ecological wellbeing. It is hard to know right now how much of this is a feel good trend and how much will translate meaningfully into constructive change. Some advocate for shifts in the U.S. tax laws to permit more blending of profit and social good, such as the B Corps. As explained on the B Corps website: www.bcorporation.net: “B Corporations address two critical problems: Current corporate law makes it difficult for businesses to take, community, and environmental interests into consideration when making decisions; and the lack of transparent standards makes it difficult for all of us to tell the difference between a ‘good company’ and just good marketing” (<http://www.bcorporation.net/why>). B Corps are businesses, not non-profits, but they also blur the line between sectors. I suspect that the outcome of the movement will result in changes in tax law rather than business practices.

The Social Innovation Fund

The Obama administration is advancing philanthrocapitalist reform through its Social Innovation Fund (SFI). As described on the national service website, the SFI is “[A] new way of doing business for the federal government that stands to yield greater impact on urgent national challenges. The Social Innovation Fund targets millions of public-private dollars to expand effective solutions across three issue areas: economic opportunity, healthy futures and, youth development and school support. This work will directly impact thousands of low-income families and create a catalog of proven approaches that can be replicated in communities across the country.” The fund is small, \$50 million, and has had its critics. One criticism is that it funnels money to groups that are very well connected in the social innovation movement and have a strong lobbying presence. There is merit to this criticism, but the Social Innovation Fund also faces a landscape in which the “radical new innovators” are a well-networked group of people who came up together with many key players in the present administration. A lot of these players are graduates of Harvard and/or

Stanford Business School and are very much a part of the intellectual circles in which the ideas of philanthrocapitalism are now being generated.

Paul Light, a Professor at NYU and one of the reviewers of the first round of SIF grants wrote in a 2010 *Washington Post* column that he had concerns about one of the grantees. Although he had an overall favorable view of the selection process, he did see evidence that one applicant may have received favorable treatment, and he made his case for more transparency in the selection process. Steve Goldberg responded by noting that Light had “raised questions about just 1 of 69 applicants, which can be investigated by the responsible oversight agency, the Office of Grants Policy and Operations.” Both Light and Goldberg make valid points—Light speaks more to the long-term institutional question of transparency in government/ social innovation partnerships. Goldberg speaks more to the question of how ethically the SIF operated in one specific case. What is useful about this debate is that Light and Goldberg make their substantive points clearly and improve the public discourse.

What Next?

Ideally, these new institutional structures will be built with an awareness of larger social questions. Should the government fund, in the form of lost revenue due to tax deductions, the social visions of an elite few? Are restrictions on private giving for social good ever appropriate? There are important discussions to be had over the best ways in which to structure the interactions between the government and philanthropy. These issues are not just theoretical. They already affect public schools in New Jersey in addition to small textiles businesses in Bangladesh.

The world looks nothing like it did even 20 years ago. We are in a period of startling social change. Democracy may go the way of the concept of privacy, not rejected so

much as made obsolete. Wealth is becoming even more concentrated in the hands of a few who, particularly in the West, are selecting and funding global social initiatives that are akin to global public policy. I suggest that we do not argue over these facts but accept them as given. The question is what do we do now?

We should first disentangle philanthro-policymaking from philanthrocapitalism. The conflation of the two has made it difficult to articulate concerns about civil society in ways that do not yet appear to be anachronistic—rooted in voluntary associations and town hall meetings. Civil society and human rights are not natural consequences of capitalism, philanthropic or otherwise. I also do not believe they are mutually exclusive.

A capitalist economy within a functioning democracy, in my view is the best system that humanity has achieved to date. But capitalism does not guarantee democracy. Similarly, philanthrocapitalism could exist within a free and fair political system or one governed by a plutocracy.

Political scientists, sociologists, philanthropists, journalists, and all who participate in these discussions, applied or theoretical, must put philanthro-policymaking on the public’s radar. I am not suggesting an exposé of bad behavior. I am suggesting an honest, even-handed discussion that will generate the knowledge needed to navigate the global institution building now taking place.

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