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SYMPOSIUM: THE POLITICS OF PHILANTHROCAPITALISM

Optimizing Philanthrocapitalism

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"Philanthropy" joins the two Greek words "philos," love, and "anthropos," human. The philanthropist is the one who loves humans and expresses that affection by actively promoting human welfare. Such deliberate efforts to raise others' living standards fall between the two endpoints of the philanthropy continuum, charity and transformation. The continuum includes many zones between those two limits. This article considers the philanthropic impulse, analyzes the philanthropy continuum, locates philanthrocapitalism along that continuum, and challenges philanthropists of all stripes to reassess their philanthropic habits and the best ways to allocate their resources (Table 1).

The Philanthropic Impulse

The urge to promote others' wellbeing impresses some as a virtue. Each of the great monotheist religions – Christianity, Judaism, and Islam – lauds the inclination to be a brother's keeper. So do most other religions and many strains of secular humanism.

Andrew Carnegie shared the philanthropic inclination that religions extol. In a videography, David McCullough noted, "Andrew Carnegie was fond of saying 'The man who dies rich dies disgraced.' Carnegie" wrote himself a letter vowing to work for only two more years, to educate himself, and then to devote his life to "benevolent purposes." Simply making more money, he wrote, "must degrade me beyond hope of permanent recovery." He made his fortune and then, unlike any industrialist of his time, began systematically to give it away. "Carnegie's daughter held a different belief. McCullough recounts" The private thoughts of Carnegie's daughter were harsher. 'Tell his life like it was,' she urged her father's biographer. 'I'm sick of the Santa Claus stuff.'

Ayn Rand stands philosophically closer to Carnegie's daughter than to Carnegie. In a 1964 interview, efforts to rescue others from substandard circumstances struck Rand as questionable: "My views on charity are very simple. I do not consider it a major virtue and, above all, I do not consider it a moral duty. There is nothing wrong in helping other people, if and when they are worthy of the help and you can afford to help them. I regard charity as a marginal issue. What I am fighting is the idea that charity is a moral duty and a primary virtue."

We argue here from the conviction that the world's religions, Carnegie, and persons of similar mindsets are right. Philanthropy in all its forms – ranging from charitable philanthropy to transformative philanthropy – is a major virtue and a moral duty. The paper also arises from the belief that Ms. Carnegie and Ms. Rand are right to question prevailing notions of philanthropy and right to criticize the "Santa Claus stuff." Philanthropy rooted in deep appreciation of the philanthropic continuum is most likely to have the greatest impact and least likely to offer inappropriate Santa-Claus help.

The Philanthropy Continuum

Efforts to improve others' living standards differ according to their intentions. The range of intentions runs from

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Table 1 United States federal outlays as percent of expenditures, selected years

	1940	1945	1950	1955	2000	2005	2010e	2015e	Change 1940 v2010
National defense	17.5	89.5	32.2	62.4	16.5	20.0	19.3	15.6	10%
Human resources	43.7	2.0	33.4	21.8	62.4	64.2	67.3	63.9	54%
Physical resources	24.4	1.9	8.6	4.0	4.7	5.3	4.7	3.1	−81%
Net interest	9.5	3.4	11.3	7.1	12.5	7.4	5.0	13.0	−47%
Other functions	8.2	4.8	18.7	9.8	6.4	5.7	5.7	6.7	−30%
Undistributed receipts	−3.4	−1.5	−4.3	−5.1	−2.4	−2.6	−2.1	−2.3	−38%
Total	100	100	100	100	100	100	100	100	

charitable philanthropy to transformative philanthropy. Charitable philanthropy seeks to provide immediate relief for those who, temporarily or permanently, cannot provide for themselves. Charitable philanthropy provides people with the proverbial fish they could not obtain on their own. At the other end of the philanthropic spectrum, transformative philanthropy enables people to provide for themselves. Transformative philanthropy empowers people to obtain their own fish. At the very least, it teaches people to fish. In the best case, it trains people to teach entire villages how to develop a sustainable fishing industry. Transformative philanthropy comes in many forms. The focus here is on two types of transformative philanthropy, philanthrocapitalism and social entrepreneurship.

Philanthrocapitalism is the application by an individual of significant accumulations of financial capital to address social problems so as to effect social justice. Philanthrocapitalism is primarily wealth transfer, from the coffers of the successful capitalist to the disenfranchised poor, i.e., a social justice strategy. The comparative advantage of the capitalist to create financial wealth will not likely be found in philanthropy; instead, it is more likely to be found in the markets, among the masses, through new products, innovative business practices, and revolutionary technology.

According to Matthew Bishop, since the birth of philanthrocapitalism (in 2006), there has been “a need for philanthropy to become more like the for-profit capital markets.” First, he notes, there must be something for philanthropists to invest in, something ideally created by social entrepreneurs. Second, the market requires an infrastructure, the philanthropic equivalent of stock markets, investment banks, research houses, and management consultants. Third, philanthropists themselves need to behave more like investors, allocating their money to make the greatest possible difference to society’s problems.

Social enterprise is the application of human capital to create social capital through the application of sustainable business practices, i.e., social enterprise. In fact, any ‘good’ business is a social enterprise, more precisely a prosocial enterprise. Social enterprise is primarily about the creation of wealth – social capital – is a means to effect social justice. A traditional sustainable business needs to create financial wealth and social capital for stockholders and customers to be sustainable. History and trillions of dollars of foreign aid, foundation grants, and human charity shows us that sustainable social justice has not been achieved through wealth transfer, whether that wealth be from a country, a foundation, or a capitalist.

Can philanthropy applied by the richest people in the world provide a sustainable solution to world poverty? Should wealthy individuals become philanthropists or just better capitalists? Is social justice best achieved by wealth transfer from the rich to the poor? Do direct wealth transfers by the world’s richest people solve a problem or simply forestall disaster? The purpose of this paper is to chart a course for eradicating poverty – achieving social justice – through social enterprise. Our efforts will focus on three questions. What is philanthrocapitalism? What is social enterprise? How can we best achieve sustainable social justice?

Wealth

In their landmark report – “Where is the wealth of nations?” – The World Bank delineated key concepts in the study of wealth. While most economists and policy makers use gross domestic product as a surrogate measure of a country’s wealth, few note that not only is this measure is incomplete, it is not even a measure of wealth. Rather, GDP is a measure of economic activity. People are poor not because they lack income; they are poor because they lack assets. And the most important assets are not financial, tangible, natural or produced; they are intangible, namely the rule of law and education. The most valuable asset for most people is a sense of physical safety (or the absence of fear) and the opportunity for personal betterment provided by an education. A safe, low-risk, educated country has enormous social capital and the presence of social capital is a primary asset for generating financial and tangible capital. Rather than view philanthrocapitalism as a method for translating financial wealth into social capital, capitalists and the poor may be better served by using social capital to provide the financial capital that can sustain and ensure social capital. Hernando de Soto, the Peruvian economist, explained the value of the rule of law and proper title to one's assets as a means for improving the lives of low-income peasants in South America.

In *The Fortune at the Bottom of the Pyramid*, C.K. Prahalad extolled the virtue and tremendous market potential of the poor as a customer. By United Nations measures, absolute global poverty has declined remarkably in the past century. According to Surjit S. Bhalla, World poverty fell from 44% of the global population in 1980 to 13% in 2000, its fastest decline in history. In *The White Man's Burden*, William Easterly contrasts inferior top-down solutions to more effective bottom-up, market-driven solutions. When TOMS shoes distributes shoes to the barefoot in Africa, they help to prevent disease, not just provide comfort or serve the poor who cannot afford shoes. When Aravind offers inexpensive cataract surgery in India, they correct rather than prevent a problem; medical treatment is a more expensive solution than preventing environmentally and nutritionally caused cataracts. Better Aravind prevent blindness, by reducing dependence on kerosene and animal dung as the primary fuel and the major source of blindness among the poor. Inexpensive corrective lenses are available only because a capitalist firm invested tens of millions of dollars in developing the technology, allowing Aravind patients to benefit.

(Relative) Size Matters

Which is better and more fair, one-eighth of a small income or one-tenth of a large income? Of course, the best answer depends on the absolute and relative sizes of the pie. Human progress and social justice require recognition of the distinction between relative and absolute poverty. Having 'less than others' may characterize relative poverty, but it is quite amicable to absolute poverty, i.e., 'having not enough to live.' Arguments – both philosophical and practical – as to the 'fair' distribution of wealth obscures the essential fact that wealth creation must proceed wealth distribution and, further, wealth must continue to be created or even 'fairly' distributed wealth will eventually be consumed. The practical reality is that wealth creation thrives on and increases disparities in wealth. Capitalists know this; philanthrocapitalists appear to put this key point out of their minds. For example, a university fundraiser, asking for a ten-million dollar gift, may tell the potential donor that the gift will generate an annual four percent annuity to support the school. The astute benefactor may demur, claiming that were the money left in his hands, he could return ten percent annually on the money. Capitalists may be wise to hold onto their money rather than turn it over to one who will generate a suboptimal return.

One need not be a disciple of Rand to question the limits of altruism. The proverb, "Give a man a fish, and he'll eat for a day. Teach him how to fish and he'll eat forever," may be the first to recognize that charity, i.e., wealth transfer is an unsustainable strategy. Not only is this second level of philanthropy an improvement; it can further improved to a third and fourth level. "Teach a village to raise fish," suggests the importance of a sustainable business strategy as superior to an unsustainable one, i.e., overfishing. And "Teach those who teach the villagers to raise fish," imparts the value of sustaining this strategy across generations.

Prosocial leadership requires positive goals, the pursuit of the common good, and effective implementation of sustainable strategies, i.e., "walk the walk" after "talking the talk." Prosocial leadership and social entrepreneurship mean, "teaching a village to raise fish." And a philanthrocapitalist business school should teach those who teach the villagers to raise fish.

Philanthrocapitalism as Public Policy

Once business entrepreneurs enter the public policy debate and budget, they run the risk of stepping outside of their comfort zone and, more important, their area of expertise. Do philanthropic capitalists pick winners any better than a communist czar? Is the G-8 about to be replaced by the C-8, the eight richest capitalists in the world? Is a foundation wiser because a capitalist created it? And is the philanthrocapitalist necessarily wiser than a foundation? Capitalists can better improve global social capital by simply doing a better job of creating wealth in their primary area of expertise rather than in charitable endeavors.

Is philanthropy a diversion, a conversion or a perversion of capitalism? According to Matthew Bishop, "Historically, many philanthropists have engaged in giving primarily to win public approval or to appease consciences guilty about how they made their money." And, "Philanthrocapitalists such as Gates are different because they combine their head and their heart when they give. They don't feel guilty about how they made their money but realize that those same entrepreneurial skills that helped them thrive as capitalists can play a crucial role in helping to solve societies' problems. They don't leave it to the government to sort things out, they challenge the government to do better and offer to show it the way. They don't do charity, they drive social change" (http://www.livemint.com/2011/03/17221001/Philanthrocapitalists-needed-i.html).

In global philanthrocapitalism, are governments impediments, partners or competitors? The president of the Adam Smith Institute noted, "Taxation is the confiscation of our property by people who prefer to spend it on their priorities rather than ours." In Western Europe, over half of all government expenditures are social welfare commitments, e.g., social insurance, pensions, education, healthcare and housing. In the United States in FY 2011, Medicare, Medicaid, and Social Security expenses of $2.16 trillion consume 85% of $2.567 trillion in federal tax receipts. Net interest of $250 billion consumes another 10%. In the United States by 2015, human resource entitlements – primarily Medicare, Medicaid, and Social Security – will constitute 63.9% of federal expenditures, up from 2% in 1945. Some may argue that 1945 – the final year of the Second World War – is an anomaly and that defense expenditures that year are not representative. Four years earlier, defense was but 17.5% of expenditures and human resources 43.7%.

So what is the role of the state in forming personal charity? In "Catholic Teaching and the Market Economy" the authors note: "The state's activities in this regard tend to crowd out the need for Christian charity in three senses: they bind the recipient to a dependency relationship to the state, one that tends to be more materially generous than private charity (and thus providing a moral hazard to the recipient); second, they encourage an attitude among potential charitable workers and donors that their charity is not needed – 'I gave at the office'; third, the sheer expense of the welfare state is paid out of the reserve capital of a country's wealth, which might otherwise go towards building up a robust charitable sector." The moral argument for charity as a personal responsibility is long-standing, clear and eroded by burgeoning efforts by governments to manage and control charity, just as they attempt to manage trade, globalization and the economy. This argument extends to philanthrocapitalists.

Capitalism versus Socialism

In her novel, *Fragile Beasts*, Tawni O'Dell's high school student protagonist conveys a lesson learned from a very popular history teacher: "Capitalism is based on the concept that in order for someone to succeed, someone else has to suffer. I just learned that in school yesterday from my history teacher, Mr. Pankowski. He's the only teacher in the whole school district with a Ph. D., so everyone calls him Doc." Distilled to a simple contrast, capitalism is the economic and political theory of wealth creation, while socialism is the economic and political theory of wealth distribution. Whereas capitalism focuses more individual responsibilities and natural rights, socialism focuses more on a social decision about fairness based on political rights. In contrast with the history teacher's claim, capitalism is about the creation of wealth rather than exploitation of a fixed amount of wealth. The teacher has it exactly reversed. And these lessons will not help the school's graduates to fish, raise fish, or teach a village to raise fish.

The expansion of capitalism-based economies has generated great wealth. What does it mean to be rich? Wealth means the possession of assets, things of value, both tangible and intangible. And what are the moral and practical obligations that come with wealth, especially in terms of the 'fair' distribution of wealth. Income is not wealth; income is the primary source of wealth creation. Wealth is the difference between income and consumption, i.e., savings. A balance sheet, not annual income reveals wealth. Many wealthy Americans have low incomes, primarily retirees with defined benefits retirement plans and no debt. To capitalists on the right, more than minimal taxation verges on the immoral; a low-tax agenda is the basis of a dynamic economy and the foundation of a moral, compassionate, free and just society. Pragmatic libertarians (Friedman and Friedman 1990; von Hayek 1978) emphasize individual autonomy and champion personal freedom. Free markets are the most effective mechanism for allocating resources and satisfying needs. There will be winners and losers but since losers arise from impersonal market mechanisms rather than individual intentions or malice, there is no injustice. So there is little moral justification for mandatory wealth redistribution. Indeed, the pursuit of social justice would destroy personal freedom, as government entitlement recipients grow to depend on state action and the state imposes control mechanisms over wealth-crating people and their activities, destroying liberty and justice in the name of achieving 'social justice'. The state should concern itself with the protection of person and property and the promotion of free markets and the enforcement of contracts. The state should and take only limited steps to provide certain public goods. While the state may – or should – act as a safety net to prevent destitution, the preponderance of practical help for the disadvantaged should be a matter of private charity.

Franklin D. Roosevelt said, "Taxes, after all, are the dues we pay for the privileges of membership in an organized society." Tithing in a theocratic society – small-scale philanthrocapitalism or the precursor to modern taxation – was not simply a form of giving but were considered the property of the nation's ultimate ruler, God. So tithes were distinguished from freewill offerings and failure to tithe was 'robbing' God. (Lev. 27:30; Deut 12:6, Mal. 3:9) While not enforced as modern taxes are, payment of tithes was a prerequisite for maintaining full membership of Israelite society. (Oden 1984) A number of features emerged: (Lev. 27:30–33; Num. 18:21–29; Deut. 12:4–7, 14:22–29, 33:10) taxation was proportional rather than progressive; taxation was universal: every household was to pay its tithe to reflect, and contribute to, its membership of the people of Israel; the level of taxation was capped at a relatively low level, a level built into Israel's constitution; communication and reinforcement of the rationale for taxation were integral to the system; taxation was collected centrally and locally under a regime of self-assessment; taxation financed a cadre of professionals, priests and Levites, whose work helped to sustain the welfare of the whole community; and taxation collected at the local level funded poverty relief measures which promoted social inclusion of those at the economic margins of society.

The Problem of Good Intentions

Philanthropic behavior is the essence of good intentions. Capitalism is the creative application of capital and the creation of new wealth. Combing the two can be problematic. Easterly documented the inherent conflicts in 'top down philanthropy in *The white man*'*s burden*, a compelling indictment of the best of intentions combined with the misallocation of much of the trillions of dollars of aid directed to Africa. African countries lead India in the percent of their populations living on less than $1.25 a day. In India, a booming market economy has produced governmental philanthropic efforts such as the $9 billion Mahatma Gandhi National Rural Employment Guarantee Scheme, cited as rife with corruption, fraud, and unfinished projects. A 2008 report "found that influential villagers in the district got enrolled to work and claimed pay without turning up. Some community leaders used mechanized diggers, which aren't allowed, to finish work quickly and then claim payment for more hours than they actually worked."

Two recent books, *More than Good Intentions: How a New Economics is Helping to Solve Global Poverty*, and *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*, underscore the value of grass roots microfinance and the problem of often irrational behavior or self-defeating behavior of the poor. As Easterly notes, "Kenyan farmers who know that if they use fertilizer their crop yields will be larger and more than cover the cost of the fertilizer—and yet they don't use fertilizer. Why? Because they don't buy it right after harvesting season, when they're flush with cash, and by the time planting season rolls around their money is gone. As these books show, the urge for instantaneous gratification often produces irrational behavior."

From Warfare to Welfare to Wealth Re-Distribution

The twentieth century has seen the transformation of the warfare state into the welfare state, from the military paradigm into the social market paradigm, and from a colonized globe into global democracies. Before the twentieth century, the demands of warfare were the principal outlet for government spending. And public expenditure represented a negligible portion of gross domestic product. For Western Europe, from World War II until the mid-1970s witnesses the post-war golden age of the mixed economy and the cradle-to-grave social welfare state. As noted earlier, the welfare state model in the United States is even more pronounced, yet less recognizable and not really evident to most Americans. Yet few could argue that an American in 1945 would recognize or even grasp the magnitude of governmental wealth transfers evident today, even when that person was living on the culture- and life-changing brink of the GI Bill and the baby boom about to dispel most previous concepts of demographics.

The global economic paradigm continues to shift, as it always has done so, only now faster than ever and coming closer to engaging the entire world population, now almost seven billion strong. From mythology to monarchy, militarism to mercantilism, from manufacturing to markets to managerial to market economies, the impetus, key resource and driver of wealth creation has changed. In a global market economy, the driving resource is capitalism, driven by capitalists. While this paradigm has created unprecedented wealth for an unprecedentedly large portion of the world population, the continued improvement in human development demands the innovative combination of various forms of capitalism – business – more than it needs philanthropy. Social entrepreneurship is social rather than financial capitalism, but it is still business, not charity, not altruism. Better that Bill Gates write better or cheaper software, pay his employees more, widely distribute stock options, or train the poor, uneducated in Seattle to be productive Microsoft employees than to apply his expertise to problems outside his established skill set.

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