

PHILANTHROCAPITALISM – precis of a speech by Michael Green at ‘Promoting Philanthropy – playing our part’, 17<sup>th</sup> Annual conference of the Irish Charities Tax Reform Group, Dublin 6<sup>th</sup> November 2008

Philanthrocapitalism means two things. First, the application of the techniques of business to giving. Second, more fundamentally, the way that giving back is increasingly becoming part of successful capitalism.

The leading light of the philanthrocapitalism revolution is Bill Gates. He is still the world’s second richest man, despite having already given away around half his fortune, some \$40 billion, to support his foundation. And through his foundation he has become a truly mega philanthropist – with the support of the richest man in the world at the moment, Warren Buffett, the Bill and Melina Gates Foundation will be giving away more than \$3 billion a year, rivalling the overseas aid budgets of many European countries. Gates exemplifies philanthrocapitalism because he is not just giving money away, he’s using his skills to tackle problems like killer diseases in developing countries – he quit Microsoft in the summer of 2008 and is now a full-time philanthropist.

Gates has taken philanthropy to a new level. He has focused much of his effort on leveraging the official aid system to do more to address the neglected diseases of the developing world, gaining a seat for philanthropists on the board of the Global Fund for AIDS, TB and Malaria, sitting alongside the representatives of governments. He has made philanthropy part of the global aid architecture.

So much for process, but what about impact? It is too early to tell, but in September a remarkable event took place at the UN – the Gates Foundation leveraged a coalition of governments and foundations to commit to ending deaths from malaria by 2015. The UN has been talking about this since the 1960s and still a million people a year die from a disease that has been eradicated in the developed world. The target is bold. The target is concrete. If Gates succeeds in leveraging the system to reach this target, it will have been a remarkable achievement.

In our book *Phianthrocapitalism: how the rich can save the world and why we should let them*, my co-author Matthew Bishop and I argue that Gates is part of a wider trend. We see signs of an emerging *global* boom in giving that has the potential to have a huge, positive impact on our world. But we also think that this calls for a debate about the role of philanthropy in our society – about a new social contract between the rich and the rest – particularly in Europe where the public is more hostile to wealth and particularly at this moment in history when capitalism is in question.

Why do we think the wealthy are going to give more? Because they can, they should and they want to.

They *can*, because the rich have got much richer in the last 30 years. In the US, for example, the richest 0.01% of the population has quadrupled its share of national income since 1980. And there are now more than a 1,000 billionaires in the world, according to *Forbes* magazine, an increasing number of which come from emerging markets. This process has been driven by technological innovation, with many of the new billionaires coming from the information technology sector; globalisation, which

allows successful companies to reach massive scale quickly; and financial innovation that has supplied the capital for this expansion.

They *should*, because governments cannot take care of the world's problems alone. Public budgets are stretched as globalisation has effectively capped governments' ability to tax and the demands on the state grow as populations age. Governments also acknowledge themselves that they don't have all the answers.

They *want to*, because the new billionaires have increasingly earned their money in entrepreneurial ways rather than coming from aristocracies or wealthy dynasties. This gives them a freedom to spend their money as they wish, which allied to a problem-solving mentality, draws many to philanthropy. The speed with which they have earned their fortunes also means that many are still young and looking for new challenges – the financier and godfather of philanthrocapitalism, George Soros, is frank that it was a mid-life crisis in the 1970s when he had earned more than enough money to live on that inspired him to start giving, which in turn inspired him to make more money to give away.

Philanthrocapitalists are not just giving away more, they are trying to give smarter. They know that large as their fortunes may be, their budgets are dwarfed by those of government and business. Hence the watchword of the philanthrocapitalist is 'leverage' – which they are trying to achieve in a wide range of different ways:

- For Soros it's about political change, either in the US through his support to [moveon.org](http://moveon.org), or overseas by supporting the 'colour revolutions' in Serbia, Georgia and Ukraine.
- For 'hedge fund philanthropists' like the Robin Hood Foundation in New York, or the Children's Investment Fund Foundation in the UK, leverage is about applying the techniques of rigorous quantitative analysis from the financial world to social problems like education and health.
- For the Google guys, it's using about linking your business expertise to solving social problems, as they do through their philanthropic wing [Google.org](http://Google.org), which is developing information tools to track diseases.
- For eBay founder Pierre Omidyar, it's about harnessing profit to scale up mechanisms like microfinance to lift people out of poverty.
- For Bono, it's about using the influence of celebrities to shift public opinion and persuade governments to spend more on aid, through the Make Poverty History campaign that influenced the G8's pledge to double aid in 2005.
- And so on - there are many more examples.

But there are two types of leverage I'd like to focus on because of a concern of many in the nonprofit sector that philanthrocapitalism is about business people who are as arrogant as they are naive misapplying business techniques to the social sphere.

I do think that the philanthrocapitalists, as active shareholders, will be a challenge to the nonprofit sector but I also think this is an opportunity rather than a threat – a chance to fix the failures in the capital market for social change. You will know these problems better than I do – short run funding, project funding rather than core funding that helps organisations to grow, over-emphasis on low administration costs rather

than real impact, and so on. Two groups of philanthropists are looking for leverage by trying to fix these problems.

First, the so-called venture philanthropists, who are applying the techniques that they have learned in the venture capital business about growing companies to scale to their growing nonprofits. In the US the leading figure is Mario Morino of Venture Philanthropy Partners and in the UK it is Stephen Dawson of the Impetus Trust. Both these organisations provide money and skills to help successful nonprofits to grow quickly. Both know that humility is essential.

Second, the new philanthropic intermediaries who are trying to ‘fix the plumbing’ between donors and nonprofits to increase the scale and effectiveness of giving. New Philanthropy Capital in the UK is a leader in this field – created by executives from Goldman Sachs, its role is to provide donors with rigorous analysis of the impact of different charities to help them direct their money to where it does the most good. And it is because they speak the same language as the donors they can persuade them to part with their money.

Let me take a few moments now to talk about the impact of the financial crisis on philanthropism. Certainly some of the rich are feeling poorer, especially on Wall Street, but the rich will probably come through this crisis better than the rest, because they can take advantage of the current ‘buying opportunity’ on the global stock markets. So the super-rich will still have money to give, and the need to give back will be even greater for two reasons: first, because government and nonprofit budgets are more stretched than ever, so there is a great opportunity for philanthropists to make a difference; second, because the role of the rich in society is under greater political scrutiny and populist attack – they need to show that their wealth benefits society as a whole.

This takes me to what we call ‘a new social contract’ with the rich. What makes a good billionaire in society’s eyes? It’s not just about philanthropy. How the rich have earned their money matters – as the Peruvian economist Hernando de Soto has argued, there is often a big difference between wealth earned through entrepreneurship in competitive markets in the developed world and wealth earned through rent-seeking and market power in some developing countries. How much they pay in taxes also matters. Philanthropy needs to be judged in the light of these issues – while *richesse* may *oblige* all billionaires to give, it obliges some more than others.

The other part of the social contract is that philanthropists, governments and nonprofits need to agree a way of working together, a division of labour. Mayor Michael Bloomberg has started to do this in New York, using philanthropic funds to pilot new, innovative ideas that wouldn’t get public funding, which, if successful can then be scaled up through the City budget.

We need a conversation about how we work together to change the world for the better, a conversation between governments, philanthropists and nonprofits. This conference is part of that conversation in Ireland and I am honoured to be part of it. Thank you.