

Lecture 2 – October 6, 2012

Philanthrocapitalism and international development: can business save the world?

Thanks to Alison for that kind introduction and thanks to all of you for coming out this evening to discuss this intriguing question, “can business save the world?” Given current events I’m tempted to say “let’s hope so” since no-one else seems to be having much success, but as you’re going to hear I’m not convinced.

But I am delighted to be here, and I want to start by sharing my feelings of discomfort, as someone has been involved in the world of international development for over 30 years, at the arrival on my doorstep of “philanthrocapitalism”, a horrible and almost unpronounceable new word that was invented by Mathew Bishop of the Economist magazine to describe the application of business thinking to the challenges of social change, a trend that is very much the flavor of the moment.

Sometimes this term is used to describe a new philosophy of action that embraces the use of the market to solve development problems and treats philanthropy and foreign aid like venture capital investing, and sometimes it’s used to refer to individuals who are seen as leaders of this movement – who many see as the new super-heroes of the international arena like Bill Gates and Warren Buffet and other billionaire philanthropists including your own exemplars like Jim Balsillie of Blackberry fame, and a new breed of social investors and entrepreneurs like Muhammad Yunus and Bill Drayton of Ashoka and countless less-famous others who are innovating new solutions to social problems including a very active social finance community here in Canada. And when market-oriented philosophies of action are pushed *forward* by people with large resources and influence it’s clear that a powerful new movement is afoot, and it’s that movement that I want to talk about today. Is philanthrocapitalism a good thing for development and social change, a bad thing, or somewhere in between?

Clearly, discomfort can be *healthy*, since all of us need to be challenged and kept on our toes lest we get stuck in our ways and fail

to notice new opportunities. As I'll describe a little later, there is a progressive agenda waiting to be organized around a vision of a global social economy going forward (a pathway to humanizing capitalism if you will), but the problem is that philanthrocapitalism is being oversold in a way that accentuates the positive and ignores the negative, displaces support for other equally-important approaches to poverty-reduction and other global problems, and distorts the democratic decision-making processes we need to guide our efforts in the future. So that's the core of the case I want to make.

Sometimes this movement is presented in positive, can-do, evangelical terms, as in a slew of recent books that claim that business can "save the world" or in this quotation from Larry Ellison, the founder of software giant Oracle and one of the world's five richest people: "the profit motive", he says "could be the best tool we've found for solving the world's problems" And sometimes it's presented as a negative judgment about the perceived failings of traditional philanthropy and foreign aid: "there is virtually no credible evidence", writes David Hunter, "that most nonprofit organizations actually produce any social value at all."

"In the past", two other critics assert "philanthropy was rarely about impact. But now for the first time, donors have sought to make a difference. [T]hey are ready to make use of the sophisticated management instruments they have developed in their business life to achieve greater performance in this new arena. [T]hey give purposefully, think strategically, and rely on measurements and regular monitoring," implying that anything that came before has been substandard, irrelevant or ineffective.

Before I go any further I should clarify that I'm not talking about being 'business-like' in the colloquial sense of being 'organized and professional', or about 'competition' as 'striving to do our best,' qualities that I think we would all subscribe to. I'm referring to the *formal* use of market mechanisms like rates-of-return on investment, enforced competition to weed out the weak, close supervision over the organizations you support, and standardized outputs as indicators of success - "an entrepreneurial results-oriented framework that emphasizes leverage, personal engagement and impatience" as one commentator has described it.

And I think if you come from a business background these things are entirely logical, though they are not exactly new. The booms and busts of technology-driven growth have always thrown up vast fortunes for a small number of individuals at certain points in time, some of which have been re-invested in good causes for a mix of altruistic and other ends. Perhaps what's different this time is that philanthrocapitalism is part of a wider and more deliberate trend to introduce the logic of the market into increasing areas of our lives as a superior mechanism for solving problems and allocating resources including in the health sector, education, government and the media, and against this background, you could say that it was only a matter of time before philanthropy and the non-profit sector were also privatized and commercialized. That may be true, but I think the consequences will be even more significant because civil society, as I like to call it, is the very *ground* from which citizens can challenge and reconstruct all human institutions, including the structure of the economy. And when that ground is eroded we risk losing the ability to create a different vision of the future as communities of equal persons, not as clients or consumers.

Now, as my mother used to say, I'm not as stupid as I look, so I know that there are situations where a business approach can really help. For example, if I want to get new vaccines into the arms of those who really need them or more efficient cooking stoves to African villages or micro-credit loans to the poor here in the USA, I would have to harness the power of the market in order to reach as many people as possible at a price point they can afford and still make a profit so that the process can continue over time. If I want to raise commercial revenue for my non-profit I would need the skills to undertake the required market testing and financial projections to make sure my strategy was viable. And every voluntary organization needs strong financial systems to forecast cash-flow projections, safeguard reserves and monitor complex contracting and reporting systems.

These are all useful tools from business and we should use them where they make sense, but, as a general philosophy, using business thinking to attack deep-rooted problems of inequality, discrimination, violence and alienation is a bit like using a typewriter to plough a field or a tractor to write a book – it's simply the wrong choice of instrument for the tasks in hand, because let's face it, social transformation is complicated, conflicted, long-term, politicized,

messy, unpredictable and uncontrollable, and those characteristics make markets inappropriate, ineffective or simply inadequate tools in many areas of the work we know we have to do.

The function of markets is to facilitate exchange, not to negotiate solutions democratically. Markets work according to supply and demand, not solidarity or fairness or the satisfaction of human rights. They utilize competition, not the co-operation and collaboration that build successful social movements and strong alliances for change. They measure success against a clear bottom line which is easy to evaluate but absent from pretty much every situation in which non-profits work. And to succeed in the marketplace you need to exert a high degree of control over supply chains and other variables, which is the opposite of empowering others for independent action.

So when we apply the logic of the market to philanthropy and foreign aid we soon run into four sets of problems. The first is accountability. Philanthropy is supposed to be private funding in the public interest, but the public has no say in deciding how its interests are identified and addressed in the current scheme of things because governance and decision-making are private matters, even if you give billions of dollars away like the Gates Foundation, which has a board of three family members plus Warren Buffet even though it is the largest funder of global public health after the US and UK governments. It's great that Gates and other billionaires want to strengthen health and education, but that doesn't give them the right to decide which drugs should be subsidized or how schools should be reformed, yet that is what's happening today.

A small but powerful network of business-oriented philanthropists, hedge-fund managers, and the non-profits and think-tanks they fund, all with close contacts and connections with senior figures in city and federal government, are engaged in a systematic effort to reform public education by introducing charter schools and market salaries at the top of the tree, weakening the power of the teachers' unions, and relying on standardized test scores to close schools and fire teachers who don't measure up.

Goodness knows our schools need improving, but when one digs a little more deeply into this scenario one finds that across the board,

charter schools don't perform any better than regular schools, that standardized tests are unreliable as measures of educational achievement, that even great teachers struggle in schools that have lots of pupils from poor socio-economic backgrounds, and that rising inequalities in salaries contribute to low morale.

It turns out that Bill Gates is just as fallible as the rest of us. His resources could make a bigger impact, or they could simply finance mistakes on a much larger scale, mistakes that the Gates Foundation has already made in previous experiments with small schools, which were supposed to be a magic bullet for the problems of public education ten years ago but failed. Add to this the \$4 million that Gates gave through Learn New York to Mayor Michael Bloomberg's campaign to abolish term limits in New York City, and who, once re-elected, reinforced official support for the school reforms that Gates wanted to fund.

The point I'm making here has less to do with the details of school reform, about which there are many different opinions, and more to do with the appropriation of the public interest by wealthy philanthropists, and whatever you feel about the merits of this particular case, think about the potential backlash that might emerge from the actions of what David Ellison, in a recent Oakland Tribune piece, called a "Billionaire Boys club that has been elected by no one, appointed by no-one, and is accountable to no-one." The same questions are beginning to be raised in global development circles particularly around health policy, agriculture and food, and that brings me to my second concern, which is how these vast fortunes are being spent, in rather technocratic ways that don't fit very well with the realities of social change work on the ground.

When you come from a business background, it's almost inevitable that you transfer the techniques and thinking that made you successful into your philanthropic work, and there are many who feel that this is a good thing because it encourages efficiency and effectiveness, but does it? I recently heard a true story from a friend who works for a foundation endowed by a Hedge Fund manager on Wall Street who is particularly concerned with the problems of children from low-income families in New York City. And good for him, those are real and urgent problems, but in tackling them he

insists on using the kind of top-down controls and detailed statistical measurements that come from his financial background, down to the level of forcing kids at the summer camps he funds to record how many minutes they spend on their bikes each day, as if that was an accurate indicator of anything meaningful, or indeed worth the time, trouble and bureaucracy required to collect the information in the first place.

You might dismiss this as an extreme example, but philanthrocapitalism is full of the same kind of thinking. One of the bibles of this movement is a book by Charles Bronfman and Jeffrey Solomon called “The Art of Giving: Where the Soul meets a Business Plan”, which encourages philanthropists to adopt the methods and measures of the corporate-sector when judging how to allocate resources between different causes and organizations. One of these measures, and I know it sounds like an inconsequential thing, is that meetings should start and finish on time - they should be run in a business-like fashion - but when you work in a nonprofit, especially one that is community-based, you know that there are lots of good reasons why meetings might not operate in this way.

For example, some of the participants may be working overtime or two jobs to make ends meet, and can't organize their schedules around fixed times; others may be single parents who struggle to find the childcare assistance that would free them up to attend; and it may take a long time, far longer than is predicted in the agenda, for people to raise their voices if they are fearful or under-confident, or to reach a consensus on thorny issues where different views are expressed around the table, or to take decisions in a more democratic manner when the argument ebbs and flows and has to take its natural course rather than being shoe-horned into a bureaucratic straightjacket.

When you think about it, all these things are characteristic of effective community organizing or development work – they are signs of strength not weakness, markers of high, not low performance. And that's because at their heart, non-profits are not businesses or government agencies, they are communities of citizens who gather together to solve problems in their own ways, even if they get some help from paid staff and other professionals along the way. And that little vignette encapsulates the problems that arise when the logic of

business clashes with the logic of democracy and social change, a logic that has underpinned the success of social movements that have already changed the world for the better in areas like civil and women's rights and the environment.

A recent study from Stanford University, for example, looked at 11,000 non-profits that work in the environmental field and found that the most successful were the *least* business-like in the formal sense because they had to be able to capture and channel the energy and passion of their staff and supporters in creative ways, so they put internal fluidity, democracy and accountability ahead of technocratic strategic planning and management information systems.

We all know non-profits that are pretty chaotic but manage to produce excellent results, and we know others that are well-managed in the business sense but produce little added value in terms of the transformation of society or lead to mission drift as financial objectives take a greater hold over priorities. Take this research by SEEDCO in New York, for example, a community development group that studied 25 projects funded by business-oriented philanthropy in areas like housing, job training and social services. They found that 22 of the 25 gravitated towards areas with more revenue-generating potential and away from activities like advocacy which – though crucial to long-term social impact - were more expensive and controversial to undertake. The same organizations also tended to exclude families that were more difficult to reach because of their high per capita costs. What was SEEDCO's conclusion? "Don't confuse the bottom line" by mixing for-profit and non-profit objectives, and if you do, make sure you hold fast to your social mission at all times.

Something similar is happening in my own community where an entrepreneurial non-profit called the Center for Discovery is increasing its intake of people with certain learning disabilities like Aspergers and Downs syndrome and excluding others like cerebral palsy. The reason? Those in the former category are more productive in working the Center's farm which brings in more revenue to cover overhead including the salary of the CEO who gets paid more than \$800,000 a year.

Despite the long time scales and messiness involved in supporting the

infrastructure of citizen engagement, we know that it pays off in the end, with around \$150 of added value created in jobs, wages, and services for every dollar spent according to a recent study by the National Commission for Responsive Philanthropy in Washington DC. The same was true in earlier times, for example in mid-twentieth century America when an upsurge in civic action pushed the federal government to pass the GI Bill of 1944 and other landmark social legislation, or in the post-Second World War welfare state settlements of Canada and much of Europe, or in the 1960s when large numbers of people became involved in protests that re-shaped the moral landscape of much of the world, achievements that the new philanthropists seem neither to honor nor understand.

So we can't assume that works in business also works in the social arena. Money, especially large amounts of it, can do strange things to people's judgment, and it can give us an inflated sense of our own wisdom and superiority. "Power always thinks it has a great soul and vast views beyond the comprehension of the weak" as John Quincy Adams put it, the sixth President of the United States. And that's my third concern: who gets funded and who gets left out when decisions about philanthropy and foreign aid are made according to returns on investment and the priorities of the wealthy?

Not community organizing or social movement building or measures to transform the economic system itself, I'm pretty sure of that. It's much more likely that resources will go to programs that strengthen individual economic assets, create commercial revenue-generation possibilities, and prioritize concrete, short-term deliverables like retroviral drugs for those with HIV, a conclusion that is confirmed by studies that have mapped and analyzed the grant-making profile of the new foundations.

Think of the Green Revolution in Africa, for example, which is being enthusiastically promoted by the Gates and Rockefeller Foundations and others. Some crop yields may be increasing because of the heavy use of chemical fertilizers and genetically-modified seeds, but soils are being depleted, women have to work longer hours in their fields, and their families are more insecure because they have to buy agricultural inputs from companies like Monsanto instead of owning and managing them for themselves, and that's an issue that's

beginning to get Gates into hot water because of the conflicts of interest that arise between his *commercial* shareholdings in Monsanto and the programs that are funded by his foundation, from which Monsanto may also benefit.

Or take the case of health problems in the developing world, which are a favorite target for investments by the philanthrocapitalists. A report issued last year by the Center for Global Development in Washington DC, a respected independent think-tank, found that everyone was so focused on getting drugs to those who needed them that they had neglected to think about the systems required to meet the broader health needs of the population in the longer term – things like training and salaries for doctors and nurses, equipment for hospitals and clinics, management capacity, gas and spare parts for vehicles and so on. Those areas of gradual institutional development are much less sexy, yet they are vital for long term success and sustainability as we have seen from the experience of past success stories in East Asia, Chile, Brazil and elsewhere.

And that's the problem in a nutshell. Things like drugs and job training are not bad in and of themselves, but they are clearly limited in their reach, and by focusing on them too much we divert energy and resources away from efforts to transform the systems that ultimately determine who wins and who loses from the processes of economic growth and development. And that's my fourth concern, which is that philanthrocapitalism acts as a fig-leaf to cover an unwillingness to make more radical changes that could turn business in the direction of greater social responsibility. The high visibility and lavish praise attached to the mega-foundations of the rich contribute to a climate in which businesses are allowed off the hook by pretending that they can increase their social impact through philanthropy instead of by transforming their own core business practices.

You can create lucrative monopolies, engage in wage theft and avoid paying your taxes, but you'll still be praised so long as you give some of your billions back. Take Carlos Slim, for example, a leading Mexican philanthrocapitalist who says that "wealth is like an orchard. You have to distribute the fruit, not the branches", presumably because most branches of the Mexican economy now belong to him –

over 40 per cent if the latest figures are to be believed.

But the truth is actually the reverse: the social impact of business is greatest when the power of the market to distribute useful goods and services is matched by simultaneous efforts to change the way the economic surplus is produced and distributed, implying more fundamental changes in corporate governance and accountability and the appropriation of private profit. And that's an agenda for transforming capitalism, not simply extending it to lower-income groups. Wouldn't it be nice if business fixed *itself* for once instead of meddling with others where it has no comparative advantage?

Just think of the possibilities, for example, if Bill Gates used the power of Microsoft to end the purchase of Coltan and other minerals from war zones in Africa that are essential to the manufacture of microchips in computers. Or imagine what would happen if Warren Buffet stood up at shareholder meetings to insist that health benefits and salaries must be provided above the minimum wage to every worker, or threatened to withdraw his seal of approval from companies that engaged in the kind of high-risk financial products that caused the current economic recession. You get my point. Pledging to do *these* things would have a much bigger impact than giving more money away. And it's that sort of deep intervention in markets that should form the core of the project of humanizing capitalism that is so important for the century to come.

And that's a good segway to my final set of points that concern how we should respond to these developments. We obviously can't go back in time and dis-invent these new trends, nor can we afford to ignore the opportunities provided by the debates that philanthrocapitalism has opened up, so the first thing we need to do is to take on the challenge of using business for positive ends and use it as a platform for pushing forward more radical experiments that increase the social impact of the market where it matters most. I'm thinking of things like commons- or peer-based production, for example, things like Wikipedia and open source software that allow everyone to share in the success of what they produce, or the expanding universe of worker-owned firms and co-operative, or new legal forms of enterprise like the B-corporation that internalize social and environmental objectives into the governance structure of the

organization.

Then there are interventions in fair trading, moving higher up supply chains of agricultural and other commodities in order to capture more of the economic surplus for local producers by taking processing and other intermediary functions out of the hands of global corporations. Or take community-benefit agreements as another example, which are designed to force big-box stores like Walmart to negotiate a better balance of costs and benefits to the communities they move into in order to preserve a healthy local economy.

These are all examples of a different kind of economics – a social economy - that go far beyond the conventional micro-credit and micro-enterprise development programs that tend to be favored by the new, business-oriented foundations. And in this sense, real change will come when business acts more like civil society not the other way around – when civic criteria and values are mainstreamed into the core operations of the economy.

Secondly, we should recognize and build on the fact that philanthrocapitalism is good at doing some things – like subsidizing vaccine research and retroviral drug production – so it should be used as a complement to, and not as a replacement for, other approaches to social change. That sounds like a statement of the obvious I know, but sometimes it's the most obvious things that have to be repeated, time and time again. As development workers, we know that better than anyone else. The problem is that the excitement surrounding these new approaches and their promise of quick, highly-visible results, deflects attention away from other, equally-valuable attempts to transform institutions, strengthen democracy and governance, expand civil society and find much more radical solutions to the problems of inequitable and unsustainable development.

These displacement effects are already visible in the USA, where foundations have disinvested in community organizing, advocacy and grassroots development. The result is that only 12 per cent of foundation resources are going to causes defined in terms of social justice and public benefit. And this comes at a time when inequality in America is at an all-time high and one in four American children live in poverty.

The danger is that philanthropy will become ever-more distanced from the forces that really change the world as it concentrates more and more on the important but much easier task of delivering health, education and financial services to the poor, a trend that is already well-advanced in civil society and the non-profit sector in many countries. These efforts will keep people alive, give them basic skills, and provide them with micro-credit loans and new varieties of seeds, but they won't have any transformative effect, and therefore they will do little to prepare the world to face the much deeper challenges that lie ahead.

Thank you for listening, and I look forward to the rest of our discussion.