

## TRANSCRIPT OF DEVELOPMENT DRUMS EPISODE 14 – PHILANTHROCAPITALISM

Host: Owen Barder. Guests: Matthew Bishop & Mike Green

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### Owen Barder

Thanks for downloading Development Drums number 14. This is Owen Barder in Ethiopia; it's another glorious sunny day here in Addis Ababa, home to the African Union and to the UN Economic Commission for Africa.

We are going to be talking today about the business of giving. I'll be talking to Matthew Bishop and Mike Green whose new book [Philanthrocapitalism](#) is a comprehensive and quite positive account of philanthropy, including in international development.

And in a new innovation for Development Drums I will be asking questions put by you, the listeners, through [the Development Drums blog](#) at developmentdrums.org or through our [Facebook Group](#). So if you want to ask questions for future episodes please sign up to the [Facebook Group](#) now.

In forthcoming episodes of Development Drums, we'll be looking at social protection and safety nets. I will be talking to Peter Singer about his new book on the ethics of development and charity [*The Life You Can Save: Acting Now to End World Poverty*], and I'm planning an episode also on taxation and development. So if you'd like to suggest a guest on these topics or you have questions you want to hear Development Drums address or if you'd like to suggest another topic, please either join up to [Facebook Group](#) or leave your comment on [the Development Drums blog](#).

Today's episode is about philanthropy and I'm joined by Matthew Bishop and Mike Green who are the authors of [Philanthrocapitalism](#), which is a recent book about the philanthropic work of the super-rich. Whether you are a supporter of philanthropy or a skeptic, this is the most authoritative account of that approach, the people, the institutes and the organizations.

Matthew Bishop is the chief business writer for The Economist. He's been the New York Bureau Chief and he's been on the faculty of the London Business School. Matthew, welcome to Development Drums.

### Matthew Bishop

Hey, great to be with you.

### Owen Barder

And you are also a Davos Young Global Leader, is that right?

### Matthew Bishop

So they say.

### Owen Barder

And is there no age cutoff for that? At what point do you become an old global leader?

### Matthew Bishop

They regard themselves as still in the prime of life when many of them are 60 and 70. So young is a relative term.

### Owen Barder



Excellent. And Mike Green, who you heard laughing in the background there, he's a former colleague of mine at the UK Department for International Development. And before that, Mike, you were a journalist and you taught economics, it's good to have you on Development Drums.

**Mike Green**

Well, it's a pleasure to be here. And I suppose for full disclosure we should say that you used to be my boss, so I have to be very nice to you.

**Owen Barder**

That is exactly right and while we're on full disclosure since we're talking about philanthropy, I should say that in my day job the team that I lead, working on aid transparency is funded by two of the big foundations that we'll be talking about, the Gates Foundation and the Hewlett Foundation.

Anyway, it's good to have you both and I'll be putting to you for the first time on Development Drums some questions that listeners have asked on [the Development Drums Group on Facebook](#). So if you are listening now and you want to see what future topics are going to be on and put your own questions to future guests, log into Facebook, look for Development Drums and put your questions there.

So Matthew and Mike, can we start by talking about who and what we mean by philanthrocapitalism? This is a term that you invented, isn't it Matthew?

**Matthew Bishop**

Yes, I invented it three years ago in a special report on the business of giving for the Economist that I – and it seemed to me that philanthrocapitalism had two meanings. One is a macro meaning and one a more micro meaning. The micro meaning is that many of the new entrepreneurial rich, superrich are turning to philanthropy and doing so in a way where they're not just writing cheques but really using everything that's great about their style of business, the way they made their money when they come to giving it away. So they are really trying to solve problems in entrepreneurial way rather than building monuments to themselves.

In the macro sense, philanthrocapitalism is also this way in which – actually maybe there's something inherently philanthropic in capitalism and you see that when capitalism has its greatest years of wealth creation throughout history going all the way back to the Renaissance Europe. This golden era of capitalism always seems to have associated with it some of the winners of that capitalism giving away their money and also doing as this current generation of philanthrocapitalism doing it in a way that is in some sense reflective of the skills and talents and mindset that help them make money in business.

**Owen Barder**

So let's delve in a minute into what it is that these people are bringing to the issues that they addressed, but just to frame how big of a movement we're talking about here. I mean most people will have heard about the Bill and Melinda Gates Foundation, spending money both Bill Gates' fortune from Microsoft and also Warren Buffett's fortune from Hathaway.

But how big, Mike, relative to for example international aid, how much are we talking about what proportion of – how much money is there going into international development from this line of philanthropy now?

**Mike Green**

I think this year the Gates Foundation is pledging to give away more than \$3 billion; now not all of that is going to international development but very large chunk is. So that's kind of a scale of giving that you've never seen before. But what's striking is that Gates himself describes his foundation is a tiny, tiny organization relative to the other players in the field.

So I guess in terms of total aid flows it's no more than a few percent and I think this is one of the things we try and argue in the book, it's not honestly about the sum of money they are giving, but it's the way they give and the things that they can do.



**Owen Barder**

So just to nail down the numbers, if the Gates Foundation is \$3 billion a year, of which only some is international development, then we are looking in development terms – because the Gates Foundation is an order of magnitude bigger, isn't it, than any other foundation. All the others are a lot smaller than the Gates Foundation. In total, we'd be looking at \$4 or \$5 billion a year?

**Mike Green**

Something like that I would guess. That only includes the very big donors, it doesn't include all philanthropic flows or charitable flows or remittance flows. There's some data from the US that says that it far exceeds total aid. But if you narrow down just on the superrich giving, it's probably about \$4 or \$5 billion, although the numbers aren't reliable.

**Owen Barder**

And that compares to about \$120 billion a year of official ODA assistance, so it's as you say it's a 4% or 5% - that kind of order of magnitude - of official aid. So its value is not much that it adds an enormous amount to the amount of money we're giving, but the way that the money is used and so. And I think we'll come to that.

What I was struck by is that you said about you approached this issue actually quite skeptically at first. But by the time you finished the book and finished the research, you had become quite enthusiastic about the role that philanthropy can play. Mike, what changed your mind?

**Mike Green**

I suppose it was – Matthew started writing about philanthropy about five or six years ago as he started meeting some of the philanthropists. And we talked more and more about what they were doing. And I talked about it with colleagues within the official aid business. And especially in the health field, a lot of cynicism, a feeling that they were just repeating the same old mistakes, going for the soft targets and that was very much the attitude I came at it with.

What I found as I researched more and more for the book that some of the criticisms actually weren't valid. Now in part that was because they were never valid, but more importantly because just the way in which the philanthropists have changed what they were doing.

Patty Stonesifer who used to be the Chief Executive of the Gates Foundation, she actually says when we went into this we were product development people, we thought this is about getting a technological solution, we've realized that wasn't the case. And what's really impressive is the way that some of these organizations have learned quickly and adjusted what they're doing based on the evidence and feedback they received. So I think my view has changed partly because some of the criticisms I think were the established aid business nearing its people coming into the business. And then secondly I think because the foundations themselves have changed the way they are giving because they have learned.

**The division of labour**

**Owen Barder**

So let's focus a bit on what it is that the philanthropy organizations bring. In the first chapter of your book, you say that one reason we need philanthropy is because governments are constrained in the amount of tax they can raise. And you say that that means we need wealthy individuals to lend a hand.

But you seem to be saying that actually the main reason we need philanthropy is not because of the money but because of other things they bring. And one of the listeners on [the Facebook Group](#), Jessica Pickett, has asked you – if you can explain what is the comparative advantage of the philanthropists as compared to the official donors?

**Matthew Bishop**



Well, I think the advantage is partly the experience they have had of working in the business world which gives them a different sense of the world. So they bring a quite an empowered sense of themselves and experience of fixing systemic problems and doing so quickly in answers – often quickly anyway, in ways that can quickly scale up to massive global portions. So it's partly that business mindset and is also an institutional advantage which is that – which I think some people would see as a downside and we argue that it has to be managed very carefully, but this institutional advantage is they are not really accountable to anyone. They haven't got a worry about short-term pressures like getting elected or keeping the [indiscernible] where you are constantly having to go cap in your hand and make your case over and over again. They have this money, they have this convening power quite often that they get because they have the money and their ability to fund meetings and reach whoever they need to get. And they can think long-term. They can take really big risks. If they lose the money and because the project does not work, then that's their money and they've chosen to do it and they haven't got to go and apologize like some other people and that gives them a tremendous freedom that is almost entirely absent in the rest of the system.

This point was really brought home to me talking to Mike Bloomberg the Mayor of New York, who we write about at quite some length in the book, who said that I come into government as Mayor of New York as a businessman looking to change things and I found that it was almost impossible to take risk in government because of the press and the politicians who would have to vote on the budget as being so risk-averse and so in the end he started to work with lots of private sector philanthropists to fund pilot projects. If they succeeded, you could then go to the city politicians and the press and say, look, this kind of works. You know we can actually scale the top through public funds. It's quite interesting to me that the Barack Obama's administration has created an office of social innovation in the White House which is very much looking to work with social entrepreneurs and philanthropists and their operating slogan is scaling what works, and I think it's the philanthropists that bring things to the point where they can demonstrate what works.

#### **Owen Barder**

Let me probe this with you because it's an appealing model that you use philanthropy to do the risky things which people find it hard to do in the public sector to be innovative, to use kind of business ideas of testing things out and then taking them to scale. What strikes me though as somebody who has worked with the foundations, is that although theoretically that ought to be their comparative advantage, it often isn't true. Often, foundations actually employ a bunch of people who have worked for the big aid agencies, the World Bank, UN, USAID and they become large organizations that have the same set of incentives and bureaucratic needs as any other. And often you get these big foundations only agreeing to do anything if a bunch of other donors will come in with them in the development business. I see that isn't true of Mayor Bloomberg and his activities. But have you seen in the development field real evidence that foundations are much more willing to take risks and think long-term and do unpopular things and all those things that ought to be their comparative advantage.

#### **Mike Green**

I think there is one great example in international development field of philanthropists doing something the governments can't and that's the Mo Ibrahim Prize for leadership in Africa. There is no way the British Government, the World Bank, the UN, could offer a prize and offer judgments on the quality of governance and leadership in Africa, it's just too political. And so what the Mo Ibrahim Foundation has done in establishing a prize and setting a bunch of benchmarks against which they measure every African leader is do something that no one else can do. Now, maybe this will bring some political change in Africa, maybe it won't, but I think Ibrahim is able to take that risk because as Matthew says, all he's doing is risking his money.

#### **Owen Barder**

Right.

#### **Matthew Bishop**

I think another great example at the moment is the malaria initiative that's going on, that's being driven by the Malaria No More campaign driven by the Gates Foundation in partnership with the World Bank, News International, the National Basketball Association, DFID, all these different parties coming together to try



and sort of really reduce dramatically the number of deaths from malaria, which was something that, I think, has only really gathered any momentum because of Gates being willing to go against the conventional wisdom in global public health which was very much, let's try and build systems of healthcare and get away from this polio or smallpox like obsession with wiping out particular diseases and I think Gates is being criticized by a lot of people but he rightly says, you know he has energized that whole field and there are just hundreds of scientists now and a lot of people who are working to get into addressing issues of public health, who would never have touched under that old rather sort of sensible but uninspiring consensus approach. So I think in that sense he's gone out on a limb in a way that no civil servant or sort of multilateral agency worker would ever have dared to.

Now, this is a risky thing. It may prove that this turns out to be a disaster and malaria isn't wiped out or if it is, it's done at a terrible cost to the general health system. Gates doesn't believe that and I kind of think he's right but I could see ways in which he isn't – it might all go horribly wrong. But that's the nature of risk, and I think he's reenergized the field. But you are right, you go to some, many, many foundations, as we say in the book, are not impressive. They don't take risks, they replicate what governments and multinational agencies do rather than challenge them and innovate and so part of the core of the book is to say to the old philanthropist or even some of the new philanthropists who haven't taken these risk-taking approaches that their comparative advantage lies in the ability to fund bold, risky, innovative ideas.

#### **Owen Barder**

Do you detect the difference between the foundations whose benefactor is still alive and those that are dead? For example the original Rockefeller bequest has gone and you've now got these foundations who are run by professional foundation managers? Is there a difference – is the determinant whether the benefactor is still pushing the foundation to be edgy and risk taking or not?

#### **Matthew Bishop**

Well you mention The Rockefeller Foundation and that's one of the foundations we profile as being a leader of the old foundations embracing the philanthrocapitalist approach because the previous incumbent was – left, and a new head of the foundation was brought in, Judy Rodin, who basically threw out all the old philanthrocrats and got rid of the silo-ed, always-doing-what-you've-always-done approach and really turned the place on its head, I mean, very controversially – she got very bad press for doing so, but I think is now starting to reap the rewards of taking risks.

So it doesn't need to be just new foundations, it can be old ones that get changed. I just think it's if it's your own money, you have a greater degree of confidence in saying well I made this money, if I lose it all then it's only my loss, whereas if you inherit money or you are a professional in charge of some money that someone else has made, you tend to take him, on balance, on average you probably feel you are more a steward of a legacy rather than an investor of capital in social change.

#### **Owen Barder**

So would your instinct be that on the whole people should aim to have their foundation spend their wealth while they're still alive, that they shouldn't be trying to create legacy foundations that go on after them.

#### **Mike Green**

I think that if they can, that's the best way of doing it. I mean one of the most active philanthropists who challenges his foundations is George Soros. He sets up multiple foundations in different countries, he shuts them down when they don't work. He is very aggressive in that. But I think he talks about how he's struggling with the problem of having too much money to give away during his lifetime. So I think he's thinking about how to set up incentives after his death so the foundation is still kept sort of lean and mean. And I think we might have written in the book about the Templeton Foundation which was set up by the financier, John Templeton who died last year and he actually set out very clear rules after his death. That there is a sort of an annual evaluation of how the foundation does and if it deserts its original purpose, the president of the foundation who is his son will actually be booted out. So I think there are some interesting innovations going on with people coping with how to keep their foundations lively after they are dead.



## The Social Contract

### Owen Barder

Then you talk about a division of labor between philanthropy and government and we've hinted at that a bit. Up to now we've been talking about the role of foundations being innovative and risk-taking. You talk about the need for a kind of a new **social contract**. What do you mean by that?

### Matthew Bishop

Well, I think particularly since the economic crisis, but I think it was very much underway before that, there has been this trend towards growing inequality and growing concern amongst the population as a whole about this emergence of a new class of superrich. We believe that if the superrich behave in ways that actually promote society both the way in which they create their wealth and the way they can give their wealth back kind of actually would be a huge asset and something that we as society as a whole ought to encourage. However, without the appropriate behavior from the superrich, their wealth can be a very, very destabilizing factor. And so we want that, there to be a debate between, or involving both, the superrich and the public at large as to what that contract ought to be that allows the rich to play a positive role rather than just have to be regarded as somewhat exploitative and parochial figures. So we think that we set out this thing which we call the good billionaire's guide.

We think that to be well thought of by public as a whole and to be given the freedom to actually get involved in solving controversial political issues like poverty and development and public health, the rich need to make their money in a way that's non-exploitative. They need to pay their taxes or at least an appropriate amount of tax that actually is a lot more of a proportion of their wealth than the average population. They need to give a larger share of their wealth and income than people with less money, and they need to not just give but give thoughtfully in ways that are designed to achieve impact and change. And so I think if they meet those four criteria, we think that they should actually be – their wealth and their philanthropy does deserve to be celebrated by society as a whole. If they don't, then as Andrew Carnegie, the Victorian American steel baron put it, if someone who dies rich, if they die rich, you know, because they haven't given their money away while they were alive, they die disgraced.

### Owen Barder

Well, I mean in a way, the timing of your book has been unlucky because it appears as if it might be coming at the end of a long movement presumably there for a golden period as philanthropy that may actually peter out if we don't have superrich people in the next couple of decades. I mean do you see the...

### Matthew Bishop

Well, honestly I think that's – I mean the world has got a lot of – has got to make itself a lot worse off than it is already at the moment. I think the crisis has clearly wiped out a lot of wealth but there are still an awful lot of rich people out there compared to even five or 10 years ago. Many people who are wealthy are going to make a lot of money during the sorting out phase of the current crisis, and unless we completely derail the globalization process which has been bringing a large part of the global population out of poverty into the mainstream global economy and creating lots of wealth in the process, unless we completely derail that process, then I think that the trend towards wealth creation and creating particularly very large fortunes at the top of the pyramid is going to resume. And in fact, this will be a pause and in fact it will be a pause that encourages more of the wealthy to become philanthropic than there maybe would have happened if there hadn't been a crisis.

So I am by no means taking it for granted that this is the end of a golden era. I think there is very much to play for. My gut instinct is that this is but a pause in the trends that we see towards greater wealth creation and particularly at the top of the income and wealth distribution.

### Owen Barder

As you were implying, it's not so much whether we are creating wealth and growth resumes, although that's important, but also whether we have the kind of inequality that we have seen in the last really in the 20th century where there are enough people who are seriously rich to really make a difference. And that is



not absolutely certain, is it that capitalism won't adjust in some way to move to a more egalitarian model in which case...

**Matthew Bishop**

Probably depends, whether you believe – it depends whether you believe ultimately the innovation process is going to fundamentally change. Much of the wealth of the Bill Gates, Warren Buffett, George Soros, Google guys kind of wealth is the result of them being very innovative, being entrepreneur in the business activities that they get involved in and I think they have typically keeping a large amount of the wealth that they create but also creating a lot of other wealthy people in the process are working with others who have become very wealthy.

So I think that that is a function...

**Owen Barder**

That's quite a rosy view, isn't it? Because you could argue that they are the 20th century equivalent of the robber barons, that they are not so much innovators but monopolists.

**Matthew Bishop**

I think it is a difficult point to make – yes, obviously, Gates at some point got so big that there were anti-trust issues but a lot of what he has done has been to brilliantly make available personal computing to the population of the world, and he was ahead of everyone else in finding a way to do that and you can hardly say he was without competition. Apple was around the same time and is still around now and they've don't seem to have won anything like the kind of market share that Gates has and I think that's because Gates has actually been more effective in reaching a large number of customers.

I mean it's very hard to my mind to see who Google has exploited. I mean maybe you can say it's exploited the newspaper industry or something, but it's hard to really make that case and it seems to me what they have done is provided an immensely valuable service which is the ability to search the information on the internet which we all love to use and they found a way of monetizing that and selling shares in the company that does that. And as a result, you've got these two guys Larry Page and Sergey Brin who've become multi-billionaires in their early thirties.

**Owen Barder**

You talk in the book about this winner-takes-all economy and some aspects of particularly internet-related industries are of this nature that people – they tend towards natural monopolies that everybody wants to use the same service. If everybody else is using Windows, then I should too. So maybe what we are going to see also is some concentration of wealth as a result of that kind of tendency.

**Mike Green**

I think, one of the things we talk about in this social contract, this good billionaire guy, is looking at the way the wealth has been earned. I think it's certainly true to say that there are some billionaires especially from emerging markets who use their ability to capture, say, assets in privatizations towards spectacular fortunes and that's very different from someone like Gates who's subject anti-monopoly laws and who indeed has had to pay fines, Microsoft had to pay fines for their market abuses as decided by the courts. So I think there is a difference now when we've got to judge those people and in a sense it may be different to the expectation about how much they should be giving depending on how the money has been earned, in a sense it's got to be judged on a kind of case by case basis.

I just wanted – one other point was I think one of the reasons I think we are optimistic that giving is going to increase is actually the shift in the pattern of global billionaires, and a lot of the new philanthropists are actually coming from places like India. And in a sense focus around what we call international development, which for them is actually national development. You've got billionaires who are much closer to those countries, to those challenges, who want to start giving back. And I think we are starting to see this in Latin America, China, other places. I think after Mo Ibrahim we are waiting to see the next great African billionaire philanthropist.



**Owen Barder**

That's going to be an interesting change in the dynamics. Isn't it? Let's just quickly pause on the short-term effect of the financial crisis. You are making a compelling case that normal service will resume as the world economy begins to recover. But in the short term here in Ethiopia, I know several organizations that are getting grants from mainly US foundations, that they are having to make quite big in-year budget cuts, not just taking a few percent off in the way that civil service might, but having to take 20% or more out of their budgets in-year. And a lot of these foundations are required to spend 5% of their total assets each year because that's what they have to do for tax reasons. So when the stock market falls, the value of the portfolio goes down and so does their grant-making.

So is there a risk that this is a kind of boom and bust source of funding for international level and actually that it will just at the time here in Ethiopia where actually what we need is more aid, that philanthropy will tend to operate pretty cyclically or tend to reinforce the cycle. What's your sense of what's happening in the short-run and what that tells us?

**Matthew Bishop**

Well, I think there has been obviously because the markets have been down so sharply and not just that, but because people have had real deep questions about what's the future shape of the global economy and global wealth is going to be. A lot of people I think have – would be much more cautious and in many cases reduced their giving in the past six to nine months. However, it's still a very large amount that – let's say in the worst case scenario maybe down 20% from what it was a year ago but that's probably it is still up on what it was five years earlier than that.

But in some cases people like Bill Gates is giving away \$3.7 billion this year which is his largest amount by far. Many of the philanthropists are increasing their giving. And what is happening which we find I think most exciting is the realization that it is not the amount of money but how you give that really counts. I mean it's actually taking hold even more deeply than it might have done had things just carried on growing, people – I think because of the sense of disappointment that they've had to maybe give away slightly less they're really wanting to make sure that their money does make a difference now. So for example they are thinking about which of the organizations that I support do I really believe has to come through this crisis and come through it in better shape than before and which am I, on balance, willing to see maybe fail and disappear.

And if I do think there are some organizations that need to survive and others that don't, how do I make sure those organizations do survive and if necessary do I get similar organizations, encourage them to merge and so forth. Things that are very hard to do in good times and it can be done in bad times. I think that in a way is the business person's mentality that actually a crisis is a great time to start a new firm and to do some hard things in your own company that maybe needed doing in good times but there wasn't the will power to do it, but a crisis concentrates the mind. I'm seeing that happening all over the place in philanthropy that people are saying, well I'm giving a bit less but I am going to make sure we do the hard things and really get value for that money.

**Owen Barder**

So we are importing some of the cycle of creation and destruction that regenerates capitalism into a sector, into the development sector that hasn't in the past had that kind of iteration.

**Matthew Bishop**

I think that desire is there. The question is going to be, is it going to happen thoroughly enough because in the for-profit world, essentially there is the ability through acquiring ownership in the marketplace to drive that change much faster. Here in the non-profit world, many organizations are immune to those market forces, and so even if they're not doing very well and they somehow – there's enough volunteers out there, enough people willing to just give them enough to limp on. There is no – the destructive path is just not there in the creative destruction, and even though the philanthropist want them to be much more productive and efficient and to do those things, they have their power to resist those pressures in a way.



And so we are hoping to see the public attitudes towards non-profit to change, that people to say look, we actually play an important role in the economy and in society you do need to raise your game and you do need to be using the money that we entrust you with well. And I mean that you can't just carry on, you might actually have to join up with somebody else and give up your independence or actually shut down and let the money go elsewhere.

## **Does it work?**

### **Owen Barder**

That's a good segue into question of whether this kind of funding actually works, whether it produces results. And one of our listeners Laura Seay has asked me to ask you this. She says, what good does it do to poor people if rich people regularly gather together in expensive hotels to talk about the best way to help poor people, why is development such a top-down enterprise when we know that most efforts conceived in the developed world flop miserably when implemented where help is needed. And that kind of worry that these are rich people meeting together in hotels who don't know enough about what really works in poor countries is quite widespread.

And you talk also in your book about some criticisms of Jamie Cooper-Hohn. Is that how you pronounce her name?

### **Matthew Bishop**

Yeah.

### **Owen Barder**

She manages the Children's Investment Fund Foundation and you quote a senior NGO executive who had some disobliging things to say about her style and approach. And when I lived on the West Coast in the States I had the impression that there are a lot of very well meaning people on the West Coast but they didn't know a hell of a lot about development and didn't think much about what had been tried, what would work, what had been learned and they brought a very innovative and entrepreneurial mindset, but they didn't, they seemed to be reinventing quite a lot of wheels. So what are the – apart from the Green Revolution which we can talk about - what are the examples of success that these people have brought about?

### **Mike Green**

Maybe it's worth just picking up on this point about, I mean there was an earlier criticism saying that foundations bring in lots of people from the World Bank and other aid agencies. And that was one critique. And another critique is they don't learn from past mistakes. So there is a pretty fine line to be walked here of learning from the past but also being innovative and I think one of the things, I mean there is this figure about the tiny percentage of US Congressmen who have a passport, is actually I think your billionaires probably a lot more of them have traveled and have experience of the world and in doing things and achieving things in the world. So I think there is an audience that she does bring, there, these are actors that can bring on an expertise that may obstruct –

### **Owen Barder**

But they didn't know much about poverty, to be fair. They didn't know much about the lives of the poor or what works in terms of building community-level development projects. They might know how to do business in Bangalore but they don't know a lot about providing clean sanitation in Malawi, do they?

### **Mike Green**

Well that's, maybe that's not necessarily the thing that they should be doing then because not all development necessarily happens at community level bottom up. I think it's about them finding where they can bring their expertise to make a change or difference, where there is something. I think, this is why the Ibrahim Prize is a great example. Here's someone who has gone around a lot of business in Africa who has realized that the way to watch the basis of successful of business in Africa is being sound political systems that would have been able to offer him – his mobile phone business a safe operating environment. He has seen how important sound politics is for development and therefore that's something he's backing. Now



that's absolutely top-down, that's about the top of the leadership, but it's someone who has the potential to have an impact. Not yet, that's definitely true, but that's part of a risk-taking approach.

**Owen Barder**

But a lot of what these foundations are engaged in are much more, in many ways trying to add value and innovating in much more conventional development contexts, of trying to provide people with access to medical care or education or water, and in those cases, although shining examples of where the involvement of foundations has brought something new or different or more successful that wouldn't have happened through the normal development agencies and multi-lateral international organizations.

**Mike Green**

I mean, I think you can claim, certainly, I mean, the great successes of the past of course, was support for microfinance, I mean, Muhammad Yunus was supported by the Ford Foundation very early on. So I think part of the skill is actually finding the people from within the communities with ideas, whose expertise and ideas can be harnessed and those ideas I think are serious –

**Owen Barder**

We should just – we should just explain, Muhammad Yunus is the man who set up the Grameen Foundation, which very successfully provides microfinance loans, primarily to women.

**Matthew Bishop**

And, though, you will find, I mean this is what struck us I think in the course of writing the book, is that time and time again there are organizations you come across that you discover that philanthropy played a key role in the early stages. For example, if you look at Ashoka, which is this extraordinary organization that supports social entrepreneurs in the developing world, they just struggle to get any funding to get going and then Bill...

**Mike Green**

Drayton.

**Matthew Bishop**

Bill Drayton, sorry, who founded, got a Genius Grant from the MacArthur Foundation and was able to give up his job at McKinsey and actually devote full time to a year to get the network up and running and then he got other foundations coming in and funding it.

Then you look at also how foundations are starting to understand that public opinion is very, very important to supporting policy changes and so, whether it be the story we write a book about the DATA organization, now called ONE, that Bono set up, he went with a business plan to Bill Gates and George Soros and another guy called Ed Scott and got each gave him \$1 million and said, okay we'll seed your organization and then they got around and played a huge role in pushing public opinion behind the G8 in 2005 with the debt reduction and aid promises that were made then. Or Al Gore's movie, An Inconvenient Truth, that was founded by a philanthropist, Jeff Skoll, the first chief executive of eBay. So we're, these are just stories picked at random. I have just been amazed that although public movements are absolutely just crucial to the success of policy change often, much more often than I would have expected, you see the role of – the hand of a philanthropist digging into his pocket and giving the cash is an early point absolutely crucial to the success of those movements.

**Plutocracy and political power, transparency and accountability**

**Owen Barder**

You have a very interesting section in the book where you talk about the danger of plutocracy and by which we mean governance of the very – of an elite, by an elite and you've given an example there of Bill Gates and Ed Scott putting money into setting up DATA, The ONE Campaign as it now is in United States which campaigns around debt and aid issues and there are a number of other examples in your book the way that foundations have leveraged change if you are willing to excuse the use of the word leverage in this way.



For example, you talk about the Children's Investment Fund Foundation increasing children's access to AIDS drugs by persuading a group of donors and the Clinton Foundation to come together. And you talk about the Gates Foundation having a seat on the Board of the Global Fund for AIDS, TB and Malaria. But this is all quite controversial in some ways, isn't it? Because one issue is, why should very rich people, even very smart people like Bill Gates, be allowed to change public policy in this way. Do we want people to be able to buy leverage over government when most of us think that we ought to have leverage through our democratic votes as citizens?

### **Mike Green**

It's interesting because we actually accept that there's a democratic channel through which they're influenced and also lot of interest in power of what we call civil society organizations, NGOs, et cetera. So actually the way that we make decisions in society is partly through the ballot box and our elected officials but also through public debate. And maybe this is controversial but I think we would see philanthropists and foundations as being part of that civil society, the private sector part of that civil society that's helping to enrich the debate over key issues and challenges that the world faces or helping to raise the awareness of issues.

And it's quite interesting if you look at the literature this – you will often find people on the left writing, complaining about the perfidious influence of right wing foundations, and people on the right arguing about the perfidious influence of left wing foundations and I kind of feel that there is always a pluralism there raising different issues and helping to enrich the public debate, push the issues out of the agenda for public scrutiny then they actually are enriching our democracy. Now, there's clearly an issue when those people then cross over and want to become elected officials.

And we talk in the book about the needs to be appropriate scrutiny around funding of their political campaigns. I'm sure we don't want situations where rich people can use their media connections and control of the national television channels to get themselves into power. But I think, taking the Berlusconi example from Italy really is not a critique necessarily of rich people getting involved in politics. And I think the role of, say, Michael Bloomberg in New York shows how someone who is transparent about where the money comes from can put themselves up for election, and actually use their independence as an asset to be a more effective political leader.

### **Owen Barder**

I think you're being a bit kind. In some ways, I have less worry about people putting themselves up for elected office, at least they then face an electorate, but I have more worry about the people who don't put themselves up for elected office, but use their enormous wealth from being successful software entrepreneurs to change public policy. And I had a slightly sick feeling in my stomach when I read about the leverage that some of these foundations have exercised. Why should Jamie Cooper-Hohn get to change government policy on pediatrics AIDS drugs? Even if she is doing the right thing, this isn't the left or right point but it's "*who appointed you*"?

### **Matthew Bishop**

Well, that's true, but I think that it's clear, as we have said, there is a theoretical comparative advantage that philanthropists can have over other players that they – that this capital can play a different role to – because of it's freedom from other forms of accountability that exists on other forms of capital and society, and we also found plenty of examples of it having a positive effect. But there is this worry the flipside of the freedom from accountability is the danger that they may use the power they have for ill.

Now, I think, firstly, that's why we argue very strongly that there needs to be transparency, and there needs to be a constructive public debate, and that the philanthropists need to actually engage the public in debate about what they are doing. And that is indeed what we are saying the best of them do. But secondly, there needs to be an acceptance on our part that they can play this positive role, but also I think, we should realize that, as Gates says, he is a tiny organization in the scheme of things, he cannot succeed unless he can persuade a majority of the rest of us in our various roles of government or business people or NGO activists or ordinary citizens, he's right in the ideas he is pursuing, that his money only goes so far unless he can leverage, in that classic sense, the rest of us to pool in or to go along with him on his journey. Now,



he is not going to get to the destination that he wants to get to because, ultimately, you can't solve problems like hundreds of millions of people dying of deadly diseases in the developing world with the money that he has at his disposal, even the richest man in the world. And I take a great deal of comfort from that, I think he has much less power as an individual, as a philanthropist that he ever did as a businessman at Microsoft.

**Owen Barder**

So this new growing transparency and accountability, you have a section in the book, where you talk about new organizations like the Center for Effective Philanthropy, that are beginning to track – and GuideStar is another one, that are beginning to track how foundations and big philanthropists are behaving. Is this beginning to put pressure on foundations? I mean to what extent are they from insulated from those kinds of pressures? And to what extent are they complying with, I'm very engaged in trying to increase the transparency of the official aid donors. Do you think that this is something that the philanthrocapitalists will get engaged in and submit themselves to?

**Matthew Bishop**

Well, if they're wise they will, and I think the trouble is there is still in its infancy, we do have a chapter in the book where we write about many of the best of these new organizations that are about trying to create transparency and create a debate about performance, New Philanthropy Capital is another one which has come out of Britain where they are doing – they're trying to create the profession of research analysts for non-profits, that's the equivalent of the...

**Owen Barder**

That's the one that's set up by Gavyn Davies from Goldman Sachs.

**Matthew Bishop**

Yes, that's right, and I think, the trouble is that, at the moment, these organizations are very small and they are operating in a world where there is no great requirement to disclose data about what you're doing and, I think, this should be a priority for, ideally, the philanthropist, but if necessary society and through government to actually invest in building up proper scrutiny and performance analysis and all what philanthropist are doing and what the non-profit sectors as a whole is doing, I mean it is extraordinary that we don't hold that sector to the same account that we hold the business sector to.

**Owen Barder**

Should do you think that kind of transparency ought to be a condition of getting the tax relief or there ought to be tougher rules about transparency that are the quid pro quo for the tax relief that philanthropist yet?

**Mike Green**

Well, it depends on what transparency you mean, I think the danger always is especially to national development, we end up with transparency about process that we love talking about how many percentage of money goes to X or goes to Y. I think the real opportunity is to actually start having a debate about transparency of impact which is something that the aid community hasn't talked about enough. And so getting these people to talk about what they actually achieve, provide real evidence of what they achieve, and also maybe, actually owning up when these, when what they do hasn't worked. So it's about shifting that debate away from process on to actually outcomes and impact.

**Owen Barder**

And do you think there is a danger that if we succeed in moving in that direction that they might become a bit more like government donors are now, a bit more risk averse, bit more short-term as – that they are having to account in the shorter term, for the results that they achieved?

**Matthew Bishop**

I don't think necessarily that's the case, I think actually, what would happen is that you would get competition between philanthropists to actually have the most effective philanthropy. I think there is a tremendous competition at the moment to give as much as you can, to win, to come on top, high-up in the table of big givers, but there isn't a similar table actually just for impact. And, I think this – the nature of



business people is that they are obviously very, very competitive of each other and, I think, if it's their money they're giving away, I think, it could create a much more effective competition to give it away well. At the moment it's all too easy for people to give money to things that make them feel good, because no one's going to ever call them on it and say, well actually, this was pretty ineffective because the problem is you don't have the information to make that call.

## **What motivates philanthrocapitalists?**

### **Owen Barder**

You've raised the topic of motives and what's motivating philanthropists which was actually a topic a couple of our listeners asked about. Richard Lamming asked this question, when rich people donate some money, do they have to be so smug around it? And Melinda Walker said that she hates it when people give their money away but expect to have their parking renovated, I assume because they can't take that off their taxes. How really generous are they? In other words, I think people are asking whether this is altruism or whether this is just the very rich getting tax breaks and the opportunity to hang out with celebrities and feel smug and get good write-ups in the press. What's your sense of what makes these people tick? You've spoken to a lot of them in the course of your research.

### **Mike Green**

This is one that people love to speculate about. If you ask a neuroscientist, they will tell you that giving stimulates a part of the brain called the mesolimbic pathway which is the pleasure center of the brain. And so you can say that kind of philanthropy is kind of sex, drugs and rock and roll, for sort of middle age billionaires who have gone through their cocaine stage, it's all about pleasure seeking.

If you ask an evolutionary biologist, they will tell you that actually it's about the giving is a way of demonstrating your ability to produce surpluses which shows that you are actually very fit. So it's all about proving you are an alpha male.

If you ask a psychotherapist they will tell you it's a way of dealing with existential angst, to deal with something called Sudden Wealth Syndrome for some people.

I mean there's a whole string of these different kind of explanations and it's some combination of all of those. Bill Gates talks about the joy of giving and how much pleasure he gets from it. And he says that's the big selling point for it. When it comes down to it, it's seems actually lot of those explanations seem lot more plausible than the tax breaks because to give a tax break you actually have to give the money away. So I don't actually think that that has the best plausible explanation.

I think there is a lot of link we feel around sort of peer pressure expectation and that's one of the reasons, I think, we quite like the idea of people not giving anonymously is that it betrays the culture of giving, betray the expectation of giving amongst people that's actually very positive for us, that's actually going to promote more giving. So I don't want people to sit around being humble and hiding what they are doing. I think they should be talking about it being transparent about it and creating a debate expectation about what it means for the rich and their role in society.

### **Matthew Bishop**

I also think though, I mean, I take all your points, Mike, but I think, also I have been struck by, in a positive way, by actually the sincerity that a lot of the people that we have spoken to are going about what they're doing. I think they have found themselves much richer than they ever expected to be. They have found that they've really come to realize that actually they are never going to be able to spend all the money they've got on themselves and that they worry about the effects of leaving lots of wealth to their children would have on their children. They don't want to create the equivalent of the British aristocracy in own family, right? And they think that actually giving it away and involving their children in giving it away that would actually be good for them. There are some quite healthy attitudes there to the limitations of money as a means to make yourself happy. And they are very committed to put it into good use. And I found that a hopeful message for all of us really that as we get wealthier that hopefully the world does get the economy back on track. And that normal people are now enjoying higher levels of income although as we get



wealthier as the world as a whole that we will also become more generous people and that would be a great outcome.

## **Creative Capitalism & Corporate Social Responsibility**

### **Owen Barder**

We've been talking so far about people making money in software or oil or steel and then going on afterwards to spend it philanthropically, can we talk a bit about whether there are changes in the way that these businesses themselves are operating? Bill Gates has written about creative capitalism and there's obviously a lots of writing about corporate social responsibility. And one of our listeners, April Harding asked on [Facebook](#) about the link between philanthrocapitalism and creative capitalism and Charlotte Seymour Smith asks how we can get philanthrocapitalists to move upstream so they actually change the way they do business in the first place. Is there any new thinking going on about things that fell quite within corporate social responsibility? And are the philanthrocapitalists feeding back into the way the business is done?

### **Matthew Bishop**

Really, I mean philanthrocapitalism is obviously a broader category than creative capitalism. Creative capitalism really is referring to how businesses work whereas philanthrocapitalism is much broader. It's about individuals as well as businesses and so creative capitalism is a subset of philanthrocapitalism.

Even before the current crisis, a lot of companies were starting to think much more seriously about how their activities impacted society and realizing that it was in their enlightened self interest to be good corporate citizens rather than on the dark side of that, you know, the way business so often was placed in the past. Now some of those conversions were pretty superficial and others were quite deep and profound. I mean, I think a company like Wal-Mart really has transformed itself internally through its embrace of the battle against climate change, for example. I think Nike who are often held up as the worst of all corporate offenders because of its sweatshop supply-chain, you know, has actually become an extraordinary positive force in that area through partnerships with all sorts of NGOs and massive amounts of monitoring of supply-chains and this is now starting to launch products that have positive social messages in the brand. And so there's some really quite profound changes going on.

The crisis that took place last year, I think, has added to that trend and will probably accelerate that trend because company – there's been a real realization in the business schools and in the commentary classes on business that actually there have been, so much of the problems came out of a short-term focus that just looked at the next quarter's profits rather than asking any deep questions about what the business was doing, whether it was sustainable, even in its own financial terms, let alone in terms of broader implications for society.

So I think that although this is not going to be a business – I am less confident of business as a – solving these problems on its own than some people. But I do think that it will become more of a positive social force over the next decade or two than it has been over the past decade or two. And philanthrocapitalists and the public can help it play that role through everything from how they give money to how they spend money on the products that these companies produce.

## **Closing remarks**

### **Owen Barder**

Mike, Mathew, thank you both very much. Is there anything you would particularly like to add about your book?

### **Matthew Bishop**

Well, I think, it's a very good read and I think actually what we found in writing it and researching it was that actually there're awful lot of things going on that people, including ourselves, did not know about that the rich are doing that are very – pretty interesting and provocative and require all of us to really care about



how our world is being run to think deeply about. And we hope we have provided an accurate picture of what's going on. and we'll provoke that anyone that reads the book may not agree with the analysis that we have but I think they will learn a lot and that they will hopefully be provoked to ask some deep questions. And I just want us to move on from this popular debate about the wealthy, which is, just oh they're a bunch of selfish people who just exploit and then waste the money fast cars and fast living, to something that's more nuanced and accurate and actually sees the potential that some of their activities can have as well as the downside of it. And I think if we can have a more sophisticated debate, we will all be the beneficiaries of that.

**Owen Barder**

Mike, have you got anything else?

**Mike Green**

Well, the only thing I might add is that I suppose the origin of this book was when Mathew and I, we were – we've been friends since school. And Mathew played Bob Geldof a localized charity concert and I was trying to be Bono. And I was on the band that performed and obviously we both failed which is why we became economists. But at that event I remember one of the songs that I performed very badly was a song by The Clash that had a line "I don't want to hear about what the rich are doing". And since this book has been a process for me of trying to shed some of those prejudices I think that are particularly prevalent in Britain and Europe about the rich. And actually as he says moving on towards a more nuanced, sensible debate because definitely philanthropy needs to be challenged. It needs scrutiny. It needs transparency. But it's got to be informed debate. And we now need to move away from the fawning, isn't it wonderful on one side, and the cynical, isn't it terrible on the other side. To start having a proper debate about what actually works and then there's a real potential for philanthrocapitalism to deliver.

**Owen Barder**

I've been talking to Matthew Bishop and Mike Green about their book [Philanthrocapitalism](#) published by A&C Black. And I just want to endorse what they've both been saying about how much material there is in the book, even if you know quite a bit about the role of foundations. There's actually an enormous amount going on it and it's a very interesting read, very well written. There's a link on the [Development Drums website](#) for the book at developmentdrums.org so you can go there and pick it up off Amazon.

I welcome your feedback about Development Drums either on the [Development Drums website](#) or on [our Facebook group](#). But for now, Matthew and Mike, thanks very much for coming on Development Drums.

**Matthew Bishop**

Thank you for having us.

**Mike Green**

Thank you.

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