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Philanthrocapitalism: How Giving Can Save the World

Matthew Bishop

William E. Simon Lecture

Annually, since 2007, the Manhattan Institute has sponsored the William E. Simon lecture on philanthropy and social entrepreneurship. This lecture series seeks to provide a framework—historical and current, scholarly and personal—for understanding the traditions and trends in American charity and charitable enterprises. Our first three lectures have ranged widely across these fields, including the 2007 talk by a distinguished historian, the 2008 talk by a renowned public policy essayist, and the 2009 lecture by the founder of the nation's most prominent management consulting firm for nonprofits.

Matthew Bishop is the U.S. business editor and New York bureau chief of *The Economist*. He was previously the magazine's London-based business editor. Bishop is the author of several books, including most recently an e-book, *In Gold We Trust? The Future of Money in an Age of Uncertainty*, with Michael Green. *The Road from Ruin* (also with Green), about how to improve capitalism following the crash of 2008 and subsequent economic downturn, was published in 2010. *Philanthrocapitalism: How Giving Can Save the World*, his previous book (also with Green), on the new movement that brings together the business and social sectors to solve some of the world's most pressing problems, has been described as "terrific" by *New York Times* columnist Nicholas Kristof, and as "the definitive guide to a new generation of philanthropists who understand innovation and risk-taking, and who will play a crucial part in solving the biggest problems facing the world," by New York mayor and leading philanthropist Michael Bloomberg. Bishop is also the author of *Essential Economics*, the official *Economist* guide to economics. He is a member of the World Economic Forum's Global Agenda Council on the Role of Business.

James Piereson is a Manhattan Institute senior fellow and director of the Institute's Center for the American University. In addition, he is chairman of the selection committee for the VERITAS Fund for Higher Education which allocates grants to programs on college and university campuses. Piereson is president of the William E. Simon Foundation, a private grant-making foundation located in New York City. The foundation has broad charitable interests in education, religion, and problems of youth. He serves on the boards of several other tax-exempt institutions, including: the Pinkerton Foundation, the Thomas W. Smith Foundation, the Center for Individual Rights, The Philanthropy Roundtable (Chairman, 1995-99), the Foundation for Cultural Review (Chairman), the American Spectator Foundation, the Hoover Institution at Stanford University, and DonorsTrust. He is a past member of the board of trustees of the Manhattan Institute.

Philanthrocapitalism: How Giving Can Save the World

JAMES PIERESON: This is an appropriate time to reflect on the role and contributions of major philanthropists, especially the kind whom our speaker tonight has termed "philanthrocapitalists." I refer not only to the spirit of holiday charity, which is certainly important. In addition, next year, 2013, marks the centennial of the founding of a trailblazing American philanthropic institution: the Rockefeller Foundation. John D. Rockefeller and Andrew Carnegie are responsible in one way or another for several of New York City's landmark institutions: Carnegie Hall, Rockefeller University, Rockefeller Center, the New York Public Library, and Riverside Church, just to mention a few. But they did more. They invented and inspired the kind of philanthropy that Mr. Bishop describes in his book *Philanthrocapitalism: How Giving Can Save the World*.

The Rockefeller Foundation pioneered the idea that philanthropy can transcend charity by attacking the causes, not just the symptoms, of social ills. Philanthropy, in other words, can be an instrument for reform and progress if intelligently and scientifically applied. This revolutionary idea in the hands of Rockefeller and his advisers at the Rockefeller Foundation and the Rockefeller Institute for Medical Research (later, Rockefeller University) yielded several historic and far-reaching breakthroughs: the elimination of hookworm disease across the South, advancing the public health movement in the 1920s and 1930s, and the green revolution in the postwar era that vastly increased the productivity of agriculture in the developing world and thereby helped eliminate widespread hunger.

William E. Simon, the man for whom this lecture is named, believed strongly in the mission for philanthropy set forth by Rockefeller and Carnegie. He certainly believed philanthropy can be a force for good, a more innovative and flexible approach than government can ever be. And he organized his own philanthropy around the admonition: give a man a fish, and he will eat for a day; teach him how to fish, and he will eat for a lifetime. Bill Simon also knew that it is the capitalist system and the wealth it generates that make philanthropy possible in the first place; thus, it is appropriate that Mr. Bishop links these two concepts in the title of his book.

In *Philanthrocapitalism*, Matthew Bishop tells the stories of the latter-day Rockefellers: Bill Gates, Oprah Winfrey, Warren Buffett, Bob Buford, Michael Bloomberg, Sir John Templeton, and many others. Their contributions to New York City, our nation, and the world are impossible to measure. And they will continue. But in the wake of the financial crisis, we are now hearing some of the same criticisms of philanthropy that were loudly voiced a century ago when the charter for the Rockefeller Foundation was first granted. Philanthropy, some say—and said then—is just public relations, a cynical strategy to gloss over inequality and burnish the reputations of the wealthy. The long-lasting benefits of Rockefeller's work are sufficient to dismantle such claims. That is also true of many of his successors today. Nevertheless, the criticisms are still out there and are widely believed as indictments of both philanthropy and the free-market capitalist system.

It is in this context that our speaker tonight returns to the theme of philanthropy and its justification, four years after the original publication of his pathbreaking book. Matthew Bishop is U.S. business editor and New York bureau chief of *The Economist*. In addition to *Philanthrocapitalism*, written with Michael Green, he is also the coauthor with Mr. Green of *In Gold We Trust?: The Future of Money in an Age of Uncertainty* (2013) and *The Road from Ruin* (2010), on capitalism in the wake of the 2008 financial crisis. New York mayor Michael Bloomberg has called *Philanthrocapitalism* (now in paperback) "the definitive guide to a new generation of philanthropists who understand innovation and risk taking and who will play a crucial role in solving the biggest problems facing the world today." Ladies and gentlemen, please welcome our Simon lecturer, Matthew Bishop.

MATTHEW BISHOP: I have particular pleasure in being here to deliver this lecture because Roger Hertog, who has been a great funder and supporter of the Manhattan Institute over the years, has some responsibility for the writing of *Philanthrocapitalism*. After I wrote an earlier special report for *The Economist* called "The Business of Giving," I got a phone call from Roger, suggesting that I write a book. I'm grateful to him for the encouragement.

One of the strangest interviews I ever did was with Ted Turner, founder of CNN, ex-husband of Hanoi Jane, and billion-dollar philanthropist. We spoke at his apartment at the Waldorf Hotel about a billion-dollar gift that he had promised to the United Nations in 1997, which he eventually sort of gave them, and a promise made apparently on a whim, because he didn't have anything controversial enough in the speech that he was giving that evening. Sitting on a chaise longue, with Ted's latest girlfriend to my right and with three or four PR girls looking on, I looked at Ted as he was rocking on his chair, easily distracted and becoming quite hard of hearing. I asked him what impact he thought his billion-dollar gift to the United Nations had had. After a long silence, he said, "You know, if you wore a hairpiece, you'd look ten years younger." I almost fell off the chaise. I think the girlfriend maybe did. He continued: "If I had my way, I would ban men from holding any public office for the next hundred years." He finally returned to my question, saying that he wanted to think that he had made a positive difference.

I won't try to debate here whether the UN is in better shape than it was before Turner got out his checkbook. What is clear is that his gift has made a difference of sorts to the UN. There is now a lot more private-sector involvement there. When he tried to give money to the UN, he was told that it was illegal to do so as a private citizen, which led to the creation of the UN Office for Partnerships. That office has never been busier at striking deals with philanthrocapitalists, not-for-profits, and big business, for better or for worse.

The biggest difference that Turner's gift made was that it helped kick-start a movement of highly public giving by the wealthy of America and, increasingly, the wealthy of the world. This is the movement I call "philanthrocapitalism," a term I created in *The Economist* article back in 2006, the one that led Roger Hertog to suggest that I write a book. In *Philanthrocapitalism*, we wrote about how giving can save the world. In his UN speech, Turner challenged his fellow superrich to become serious philanthropists, and went on to name names of those tycoons whom he thought were "awash in money they don't know what to do with" and who should start giving it away. These "guilty" men included Bill Gates.

This movement achieved critical mass in June 2006 at the New York Public Library, when Warren Buffett called Bill Gates onto the stage, handed him an IOU for most of his fortune, which was then around $30 billion, and asked him to give it away through the Bill and Melinda Gates Foundation. That was a unique moment in human history. Never before had the two most successful businesspeople of any age stood together on a stage promising to give away the vast part of their wealth to fight poverty and disease among the poorest people on the planet and, in this case, to improve America's failing school system. In its visibility and scale, this took to a new level the American tradition of mega-philanthropy, which marks its 100th anniversary with the Rockefeller Foundation's birthday next year, which had flourished in the early decades of the twentieth century. This new level has continued to rise, with the launch by Buffett and Gates in 2010 of the Giving Pledge. So far, 93 American billionaires have taken the pledge, publicly promising to give away at least half their fortunes by the time they die. According to *Forbes*, there are now 425 American billionaires out of a global total of 1,225. So maybe we still have more than 330 pledges to come. Let's hope so.

There is a long spiritual tradition that sanctifies giving in secret, primarily with the excellent goal of discouraging excessive pride and self-aggrandizement by the giver. Yet I think that this growing movement to pledge publicly is necessary for reasons of transparency and accountability, a theme I'm going to return to later. The list of pledges even includes some twentysomethings—most notably, Mark Zuckerberg, cofounder of Facebook. In his Devil's Dictionary, the satirist Ambrose Bierce defined a philanthropist as a rich and usually bald old gentleman who has trained himself to grin while his conscience is picking his pocket. Today, philanthropy is no longer just an old man's game. We can look forward to half a century or more of giving from some of the new generation of philanthrocapitalists, which at least gives them plenty of time to learn to do it right, something that many of them will take most of that 50 years to do, I suspect.

The movement is also going global, as the new wealthy of other developed economies and, increasingly, the emerging economies embrace philanthropy, albeit often tailored to local circumstances and cultural traditions. In the past year, I've spoken to new philanthropists in China, India, Britain, and even Sweden, the traditional home of statism. As for local conditions, when Warren Buffett and Bill Gates turn up in China and India to talk about the Giving Pledge, more philanthropists seem to be fleeing than sitting down to eat with them, because I think they feel that their cultural traditions wouldn't welcome it. There has been a much more nuanced, private discussion in both countries with Gates and Buffett since those initial visits, which, in India, has been focused on showing the Indian tycoons opportunities to really make a difference, because there are well-run organizations for them to invest in. In China, there is a much greater recognition of the sensitivity of very visible giving at a time when government is still very slowly coming to terms with the private sector taking the lead in dealing with any social issues.

Nonetheless, this is a global movement, and some of my favorite philanthrocapitalists are from the developing world, none more so than Mo Ibrahim, whose cellphone business made him the first homegrown African billionaire entrepreneur. He has established a huge prize for recent or retired heads of government in Africa, about $3.5 million plus $750,000 a year for the rest of their lives. The goal is to encourage a proper debate about governance in Africa and to reward those leaders who did a good job in office. Perhaps the most powerful message that has been sent by this prize is that it hasn't been awarded in three of the six years for which it has been up for grabs because no candidate was good enough. This has stimulated an important conversation across Africa, supported by growing evidence about comparative analysis of government and society in different countries.

This rise of philanthropy around the world is not surprising. From our study of history, Michael Green and I found that periods of great entrepreneurial wealth creation, wherever in the world they occur, seem always to give rise to great philanthropy, often philanthropy heavily influenced and shaped by the business thinking that drove the wealth creation. So if you went back to the first two golden ages (and we're, I think, in the fifth golden age of philanthropy since modern capitalism was born out of medieval Europe), they were in Europe. The first was the merchant traders for the first time setting up schools and hospitals, often in areas where the church had neglected them. The second golden age was around the formation of the public joint stock company, where the philanthropy imitated in many ways the process of creating a business where the social entrepreneurs of the day would raise subscriptions from a series of donors who would then have voting rights and the ability to fire the manager of the nonprofit, a system that we would do well to replicate today.

Today's era is very much an era of global capitalism. We increasingly see a globalized philanthropy, operating on a scale that we haven't seen before, using business techniques and strategies that we haven't seen before applied to philanthropy, just as the Rockefellers and Carnegies created institutions on a scale and set about institution-building in a way that reflected the first era in which capitalism had moved to huge industrial concerns, building on massive economies of scale.

The original subtitle of our book *Philanthrocapitalism* was not *How Giving Can Save the World* but *How the Rich Can Save the World*. Michael Green and I stand by both those subtitles. So why the new subtitle? We learned the hard way by launching the book a week after Lehman Brothers collapsed. In that economic climate—and today, as well—saying anything positive about the rich is no way to sell books. And we do think that the message of *Philanthrocapitalism* is important and deserves to be widely read. Philanthropy can play a crucial role in tackling the biggest problems facing the world. One reason that it can do so is because, compared with almost any other source of money in society, philanthropic capital is free capital—free not just because it tends not to require any economic payback for its use but because it's able to do pretty much as it likes, with very few constraints. That means that it can take risks, back unpopular causes, challenge conventional wisdom, and be contrarian, things that our society needs more than ever if it's to solve some of the big problems that we face.

My current favorite example of this free spirit is Peter Thiel, the German libertarian cofounder of PayPal, whose philanthropy has supported causes such as encouraging kids with bright ideas to quit college and start a business; sea-steading, which is the building of floating offshore communities where people can experiment with all sorts of different political systems; and even trying to reverse biological aging. This is contrarianism and speculative and long-term experimentation writ large.

In our book, Michael Green and I argue that giving by the rich has potentially more impact than giving by ordinary people because the rich can be "hyper-agents." Unlike politicians, they do not face elections every few years; and unlike the CEOs of most public companies, they do not suffer the tyranny of shareholders' demands for ever-increasing quarterly profits. Nor do they have to devote vast amounts of time and resources to raising money, as most heads of NGOs do. That frees them to think long-term, to go against conventional wisdom, to take up ideas too risky for government, to deploy substantial resources quickly when the situation demands it, and, above all, to try something new.

Three points about hyperagency. First, new social media—through low-cost connectivity, the generation of big data and analytics of that big data, and the creation of ubiquitous feedback loops—are dramatically increasing the ability of ordinary givers to practice collective or crowd hyperagency. I saw this firsthand last month as an adviser to the Giving Tuesday campaign, which, with very little money and a lot of social-media activity, produced a significant increase in online giving in America on the Tuesday after Thanksgiving this year. It's a small example, but the power of social media is going to become far greater over the next few years, not least by giving a long-overdue voice to the people whom the giving is intended to benefit—people who are often ignored and not much benefited by the good intentions of the giver.

Second, public companies also have the potential for philanthrocapitalistic hyperagency but are often held back by market pressures to maximize short-term profits. I'm not talking about abandoning the profit motive or anything of that kind. But many bosses that I speak to believe that they could do what Michael Porter calls "created shared value" by investing in things that simultaneously benefit society and the bottom line. But many of these initiatives require long-term perspective and possibly taking a hit to the bottom line in the short run. So these bosses are unable to pursue these strategies to the degree that they would like because the stock market punishes that kind of short-term hit.

I'm closely watching Unilever, which is trying to defy this conventional wisdom, having set out to double its sales by 2020, primarily in the developing world, while halving its environmental footprint—probably as bold an objective as any company has set itself in terms of simultaneously benefiting the planet and its profits.

I'm struck, too, by recent developments in private equity, which is obviously less fixated on short-term profits than public companies are. As an illustration of what might happen if public companies were encouraged to take a longer-term view, look no further than private equity firm of Kohlberg Kravis and Roberts, which we all remember from its 1980s heyday as the barbarians at the gate. You may not have heard of its more recent activities, such as a flourishing partnership with the Environmental Defense Fund, which gets full access to all the companies in the KKR portfolio and is invited to propose ways in which to make them more sustainable, and to publicly criticize KKR if these ideas aren't taken up. Over the long term, KKR reckons that this green portfolio program will add significantly to its profits. At the end of 2011, it reported cost savings since starting in 2008 of $365 million and said that it had avoided 810,000 metric tons of greenhouse gas emissions, 2.2 million tons of waste, and 300 million liters of water.

I'm aware of the Manhattan Institute's criticisms of shareholder activists, particularly from trade-union-run pension funds. However, we need institutional shareholders to become more engaged as long-term owners of public companies, not less engaged, as I think the Institute seems to want if we are to reduce bad short-term pressures on companies and allow them to pursue long-term goals in their enlightened self-interest.

I gave a lecture last week at the Mansion House in the City of London about how to make finance more socially useful; one focus was, how do we reconnect ourselves with how our savings are invested so that we don't just write a check each month to our 401(k) fund? Or perhaps our company contributes to our pension fund and that's the last we think of it; how do we ensure that the institutions that are intermediaries, who are acting as owners on our behalf, properly steward our money? In Britain, the idea has certainly caught on that many of our public companies are, in effect, owner-less corporations that are some of the least accountable forces out there in society and that we need to focus on the institutional shareholders and figure out how to make them more accountable to us. This seems to be a challenge that some philanthrocapitalists are increasingly interested in taking up, as I will explain in a moment.

Third, the hyperagency of the rich is significant but not overwhelming. Compared with the modern state—or, indeed, big business—their giving is relatively small and needs to be done cleverly if it is to make a real difference. I remember asking Bill Gates if his foundation, which was by then giving away an unprecedented $3 billion a year, was becoming a big, all-powerful monster like Microsoft. He answered, "We're a tiny, tiny organization." Then he pointed out that $3 billion was about a fifth of the annual schools budget in New York City, which very quickly puts into perspective the scale of the challenge. Equally though, if one looks at the impact of venture capital, which has created many companies worth hundreds of billions of dollars, we can see that the amount of money is not necessarily a key indicator. It's how that money is used: if it can be directed where it can make a real difference, its impact can ultimately be huge.

Gates was very clear that even with his connections, which are another enormous asset that the rich tend to have that helps them be hyperagents, his money would not be enough to move the needle in tackling the world's biggest problems unless he could persuade many others to partner with him in pursuing his goals. Without partners, including a significant part of the public through their political consent, it would not be possible for Gates to achieve his goals.

That's why one of the favorite words of philanthrocapitalists is from the finance industry: leverage. You hear it all the time. They want to maximize the bang for their buck by leveraging the resources of others, whether they're in the nonprofit sector, business, or government. The longer that philanthropists are doing it, the more they think about leverage and the more they consider such things as: Where do we find the tipping point in the system where a little bit of money would make a huge difference? Or that bottleneck where, if you could unblock something, it would have a huge consequence? Gates, when I first interviewed him about this in 2001, was very much of the view: "I just invent the vaccines and somehow the vaccines will find their way to the people who need them." Now he has a much more complicated, nuanced view.

There is growing concern about how you leverage the nonprofit sector. One thing that happened very quickly was that the language changed: philanthropists became social investors, charities became social entrepreneurs, and language that was focused on impact and scale quickly appeared where previously it had been much more anecdotal and much less rigorous. The best philanthrocapitalists have a relationship with a nonprofit; they're thinking about it in the same way that a venture capitalist would think about a start-up. They're not thinking about how to skimp on costs but how to build capacity that will allow the organization to grow big and successful if it succeeds. Increasingly, people are thinking about the capital curve for a nonprofit that would allow it to scale up: When do you have to give it seed capital? What does that look like? What kind of mentoring do you need? How do you get through the $10 million ceiling that tends to have been a huge problem for many nonprofits that stabilize there? How do you avoid becoming an anecdote popular at lots of conferences but never getting beyond the first sort of charming picture to really make a difference?

Real culture clashes often occur when these philanthrocapitalists first go to the nonprofits and the nonprofits don't like them; neither party respects the other. That's something that requires a lot of work. There has also been a lot of interesting debate about the role of metrics and how you measure the performance of a nonprofit. Do you set appropriate goals that help the nonprofit achieve its mission? Or do you create lots of data that just bog people down in bureaucracy or cause them to focus on the wrong goals? A fascinating conversation is going on now that's putting the proper language and ground rules in place so that we can have a productive partnership between the person who is bringing a business mind-set and business money to the nonprofit world and the people he's trying to help.

There is also growing interest among philanthrocapitalists in leveraging capitalism itself by developing market mechanisms to address poverty and harnessing for-profit capital to grow these solutions to a scale that charity alone could never reach. One organization to watch is the Omidyar Network, created by Pierre Omidyar, the founder of eBay, who famously has a bust of Adam Smith on his desk and has a very market-oriented view of the world. A few years ago, Omidyar had a run-in with Muhammad Yunus, the Nobel Peace Prize–winning founder of Grameen Bank, over whether microfinance should ever be run for profit. He believed that this service of microcredit would never be provided by charity on a scale that it could be provided by the for-profit motive being harnessed, and he set up a large fund that proved that this was the case.

It did achieve massive scale, but it also had sad consequences in terms of bad lending practices, leading to some Indian farmers being overindebted and committing suicide, which has been a very instructive lesson to anyone interested in that whole area. It seems that there wasn't enough investment in dealing with predictable problems of what happens when you start suddenly pumping credit into a market where no one has had any access to it before, without having proper regulatory instruments—such as a credit bureau. Now Omidyar is bringing a much more nuanced approach to its giving, where it's considering: How do you build a whole marketplace up? What do you put in place as an ecosystem? How do you create the right business models? This is clearly a job where philanthropy has to play an important early role in testing out what works and what doesn't work. The Omidyar Network now funds a wide range of organizations, from Hernando de Soto's Institute for Liberty and Democracy, which promotes property rights for the poor, to Bridge International Academy, a company that delivers high-quality education at the base of the pyramid in Kenya. This is very different from traditional philanthropy.

The new buzz phrase for all this is "impact investing," an idea pushed by philanthrocapitalists who want their for-profit investments to help drive their philanthropic mission as well as their grant making. So far, there has been more talk than action about this. My favorite example is the Rockefeller Foundation, which funded a lot of the development of the impact-investing language through its grants, but so far, hasn't invested any of its endowment in any impact investments, which shows you more about the problems with traditional structures of foundations than anything else. J.P. Morgan believes that by 2020, impact investing could be so large an asset class that it would be worth between $400 billion and $1 trillion and would attract mainstream investors as well as philanthropists.

Perhaps the most interesting new impact-investing product is the social-impact bond, or, as it is known here, the pay-for-success bond. This tries to leverage both government and private capital to scale up a nonprofit. The bond is sold to for-profit investors whose money is used to scale up the nonprofit, which has an idea that can reduce government spending over the long term. In the recent pioneering social-impact bond issue in New York, this is the nonprofit Adolescent Behavioral Learning Experience program for teens jailed on Rikers Island. The aim of this program was to reduce re-offending, which benefits government spending in the long run if far fewer people are in jail. So if the program succeeds, investors will be paid a good profit by the government out of the savings that have been made from fewer jailings. On the other hand, if things go wrong, the private sector takes the hit, not the government. This is potentially going to solve one of the big problems of government: that it tends to be terribly risk-averse when it comes to investing in precautionary programs that don't really pay off for several years.

The social-impact bond in this case is backed by Goldman Sachs and the Bloomberg Foundation, the charitable arm of a mayor who, I suspect, likes to view his entire political career as an act of philanthropy. Michael Bloomberg has pioneered what may be a model for how philanthropy can drive innovation in the public sector, by getting philanthropists to back pilots of risky policy experiments, which, if successful, can easily be incorporated into the public budget and scaled up because they are now proved to work.

One of the first examples of this was the academy for training principals for schools in New York, which was modeled on the Jack Welch training center at Crotonville (New York), which trained GE managers. The cost was about $150,000 a head for a principal, which, it was concluded, would be very hard to sell to the public in New York as a use of taxpayers' money. So it was initially funded by Eli Broad. But once it was shown that the principals actually had a much better track record than untrained principals, it became relatively straightforward to transfer that budget into the city budget and scale it up.

There is also the potential for government to make use of incentive prizes such as the X Prize to stimulate private action. Perhaps philanthropists could pay those prizes or for matching grants; whereas policies will go ahead and public money will be spent only if a sufficient number of private individuals are willing to put up matching funds to indicate that this has been market-tested and that this works. On the other hand, we need to be careful that the private-public partnerships that result are benefiting the public, rather than the private individuals involved.

The goal of leveraging government is increasingly widespread among philanthrocapitalists from Gates on down, which is giving rise to growing controversy.

Philanthrocapitalists cover most of the political waterfront, and, compared with the population at large, they tend to be far more pro-capitalistic, for obvious reasons. The more partisan philanthrocapitalists, whether it be George Soros on the left or the Koch brothers on the right, become favorite bogeymen for the foot soldiers on the other side.

I broadly welcome the pluralism that this brings. Both sides have their hyper-agents battling each other, and I would like to see a lot more transparency about this; but ultimately, their money shouldn't do too much damage to democracy, and it may, in surprising ways, enliven our democracy.

However, I worry that some of these clashing titans are reducing their potential impact by becoming too narrowly partisan. Some of the most effective philanthropy in the second half of the twentieth century was in the battle of ideas, such as when conservative foundations backed the development of a new market-friendly intellectual consensus that made possible the governments of Ronald Reagan and Margaret Thatcher and, to a lesser degree, of Bill Clinton and Tony Blair. Here, William E. Simon himself played a crucial role, not least as president of the Olin Foundation, which gave grants to think tanks such as the American Enterprise Institute, the Hoover Institute, and, of course, the Manhattan Institute, and also supported the work of scholars such as Allan Bloom, Samuel Huntington, and Irving Kristol.

In the run-up to the recent presidential election, there were signs that organizations such as the Cato Institute and Heritage Foundation were under pressure from donors to sacrifice long-held intellectual principles and instead become partisan cheerleaders. I hope that donors will realize that the bigger rewards may lie in winning an honestly fought, long-term battle of ideas than in undermining the reputations of institutions that had achieved a significant standing in the public square in America.

Yet even on policy matters where philanthrocapitalists tend to broadly agree, such as entrepreneurship and particularly education, there is growing political controversy about their role. Reforming America's failing public education system, especially through the spread of well-run charter schools, is a cause that has attracted funds from philanthrocapitalists from across the political spectrum. Yet these efforts have come under increasing attack. In her book *The Death and Life of the Great American School System*, Diane Ravitch discusses this branch of philanthrocapitalism. In a chapter called "The Billionaire Boys' Club," she argues that there is "something fundamentally antidemocratic about relinquishing control of the public education policy agenda to private foundations run by society's wealthiest people," whom she describes as "bastions of unaccountable power."

As the Walton Foundation is a big donor to charter schools, Ravitch sees common purpose in the antiunion policies of its family firm, Walmart, and its philanthropy's ideological commitment to the principle of consumer choice and to an unfettered market and education. I think that as she does this, she confuses critically private management of schools, which is what charter schools are all about, with privatization and deregulation and a freedom from any government oversight, which they are most definitely not.

Though it's far from perfect, the charter school movement is clearly having a positive impact on America's education system. Its best practices need to be scaled up as fast as possible. Efforts by the likes of the Bill and Melinda Gates Foundation and the Broad Foundation have helped make a success of the Obama administration's Race to the Top program and helped move some 46 states to agree on a common core curriculum at last, which will be the basis of fairly dramatic improvement in education across the country, particularly by encouraging technology-based companies to invest a lot more in original content, which can be used widely.

But what of Ravitch's concerns about unaccountable power? As I said earlier, the hyperagency of the rich, even of Bill Gates, is limited. Unless the rich can persuade many others to go along with them, they're highly unlikely to achieve fundamental change. The model that we now have for solving big problems in our society is no longer the siloed approach that government solves things, the charitable sector fills in the gaps, and the private sector generates the wealth. It's a much more ad hoc, less siloed partnership approach. Michael Green and I came up with the term that we thought best captured it: the posse, which you see in Westerns, where a problem arises and someone rounds up a group of likely suspects who have the right skills to ride out together to deal with whatever has to be done.

Another term I've heard used for this is "coalitions of the positive." The formation of those posses or coalitions of the positive is what makes solutions possible. That very process brings the democratic accountability that means we shouldn't be too worried about the fact that some of the people at the heart of those partnerships or posses are extremely wealthy. This doesn't make them plutocrats. It might make them sheriffs.

That said, more needs to be done to put to rest any fears we ordinary folk may have about becoming subjects of a plutocracy. Far greater transparency is required from our philanthrocapitalists, including about what they give to and about their failures. The Giving Pledge is but a start. As a reporter, I find that, compared with business, the world of giving is very opaque. What information is forthcoming tends to arrive far, far too late. There seems to be no reason that it should lag the business world this much, particularly now that we have modern technology available. I would challenge philanthropists to lead the way by voluntarily embracing transparency, in the understanding that this will make it much easier in the long run for them to go about their business because it will reduce the sort of suspicion that the likes of Diane Ravitch are likely to stir up at every opportunity.

I'd also like a proper debate about the tax deductibility of charitable donations and whether these really benefit society, at least in the form in which they now operate. Perhaps we will have one next year. In a recent article for *The Economist*, I describe evidence that calls into question the social value of much charity. I argue for a public benefit test to be applied to qualify for a deduction.

I'm also struck that many of the philanthrocapitalists dispute whether the tax deduction really has any impact on them. In some cases, it seems to be a bit of a constraint. The Omidyar Network, to which I referred, set up a standard foundation initially, but found it so constraining that it moved away from it and created a new organization that allows it to easily decide whether to make a traditional grant or even make a for-profit investment within the same structure. And the Omidyar Network likes to talk about how it has been set free from the tax code.

Perhaps the Manhattan Institute should lead the debate about what the social contract or compact between the rich and the rest of us should be, so that we can calm the fears of ordinary people while giving philanthropists the freedom to work their magic. Is it really magic? The results are going to be crucial. I've dated this movement back to 1997 and Ted Turner's speech. So we've had 15 years of rapid growth and rapid experimentation. Now we are beginning to see exactly what this has delivered. The charter school movement is one sign of progress; the next five years will be very crucial for that. The Gateses' effort on malaria, which has already, it seems, reduced infant deaths by half a million—about 50 percent in five years—is another sign that a new approach to global public health using the posse structure can also work.

One thing that will be decisive in whether the public embraces philanthrocapitalism and supports it or whether it turns against it and sees it as more evidence of the rich being feckless and useless is going to be the fruits of their labors. Does this stuff really work? That's also going to be a huge influence on whether those other billionaires, or anyone else with money, will wish to be involved in philanthropy, including any of us here who want to get involved. If we can see it working, we want to be part of it. If it doesn't work, maybe we don't. If we have that debate and we figure out the right social contract, the inclusion of our greatest entrepreneurs in solving the biggest problems that we face makes a lot of sense. I'm optimistic that we can solve some of those big problems much more quickly than the current gloom suggests. I'd like to end on that optimistic and upbeat note. Thank you for your attention.

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