

Philanthrocapitalism and the Hidden Power of Big U.S. Foundations

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Abstract

This paper seeks to discuss the modern concept known as philanthrocapitalism. By shedding light on the philanthropic commitment of American billionaires, it investigates how super-rich benefactors exercise power by investing in huge foundations. A critical examination of the current rise of philanthrocapitalism is presented first, followed by a discussion on how foundations can be used to gain and maintain power to advance personal and business interests. The aim is to present a critical investigation of benefactors' approaches to philanthropy.

Keywords: Philanthropy, philanthrocapitalism, hegemony, Gates

Philanthrokapitalismus: Intransparente Machtausübung durch große U.S. Stiftungen

Zusammenfassung

Dieses Paper behandelt Aspekte des modernen Konzeptes „Philanthrokapitalismus“. Der Fokus liegt dabei auf dem karitativen Engagement nordamerikanischer Milliardäre und den Strategien, durch die diese mithilfe von Stiftungen Macht ausüben können. Der erste Abschnitt beschäftigt sich mit dem derzeitigen Aufstieg des Philanthrokapitalismus. Der zweite Teil zeigt auf, wie Wohltäter und Wohltäterinnen ihre persönlichen und beruflichen Interessen fördern können.

Schlagwörter: Philanthropie, Philanthrokapitalismus, Hegemonie, Gates

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1. Introduction

On December 1, 2015 Facebook co-founder Mark Zuckerberg and his wife Priscilla Chan released a video, promising to donate up to 99 percent of their Facebook shares to charitable causes. With assets worth more than 45 billion U.S. dollars, one can only imagine the impact this gift may have. Their daughter's birth, they state, made them realize their moral duty to create a better future for society as a whole. By founding a new foundation, the Chan Zuckerberg Initiative, they intend to invest in various areas including global healthcare and education. (Goel/Wingfield 2015)

With this undertaking Zuckerberg and Chan are among the first big names to join Bill Gates' and Warren Buffet's Giving Pledge. In 2010, 40 American billionaires vowed to donate at least 50% of their wealth during their lifetimes or afterwards. According to the *New York Times* half of their fortunes combined would account for around 600 billion dollars being given away to charity. (Strom 2010) Apart from Gates and Buffet this list includes former New York City mayor Michael Bloomberg and Tesla's Elon Musk. The Giving Pledge, however, does not dictate or even recommend anything more precise about when, where and how these donations are supposed to take place. It can be assumed that many of them, provided that they do honor their pledge, will follow Bill Gates' example by investing in foundations of their choosing. Hence, the establishment of more huge foundations seems to be likely.

Zuckerberg, Gates and the likes of them are widely believed to be part of a philanthropic movement. *Forbes* Magazine, among many others, went as far as calling it "A Golden Age of Philanthropy". (Lane 2013) This observation seems to be fitting given the grand statements of some billionaires. Another aspect supporting this statement is the growing number of new foundations. In the United States alone there are approximately 85,000 private foundations. Almost half have been founded only recently, more precisely since the early 2000s. (McGoey 2015: 17) Their combined assets totaling more than 865 billion U.S. dollars have risen over the last few years. (foundationcenter.org)

2. A Modern Way of Giving

While charitable giving is by no means a new novelty, benefactors have implemented new and improved techniques to tackle the world's most pressing problems.

The new design, both praised and harshly criticized, is labeled philanthrocapitalism. There are several terms that attempt to describe a similar phenomenon. Philanthrocapitalism, social entrepreneurship or simply strategic philanthropy are just a few of the proposed phrases that arise when debating this topic. While there certainly are differences between these terms, the benefactors' fondness for a business-like approach to social issues is common ground.

The term "philanthropy" originates from the Greek "*philo*", meaning to be fond of something, and "*ánthrōpos*", which means man. It is usually translated as a love for mankind. Michael Edwards considered three features to be most defining in order to understand philanthrocapitalism. Firstly, philanthropists own and commit a vast amount of money to their chosen causes. Most people in this small circle acquired their fortunes by doing extraordinarily well in the finance or IT sector. Secondly, a pivotal idea is that capitalist practices are the best way to deal with the world's problems. (Edwards 2008: 31f) Benefactors do not see themselves as donors in the traditional sense, but as entrepreneurs investing in a good, yet profitable cause. Contemporary projects are being described with business terms like "strategic", "market orientated", "efficient", and "knowledge based". (Bishop & Green 2008: chapter 1) Thirdly, through these methods they aim to achieve "the transformation of society, rather than increased access to socially-beneficial goods and services". (Edwards 2008: 32) A key element is the firm belief of being more qualified for this challenge than any government.

Strong philanthropic sector – weak government?

Leaving your mark by doing some good for the poor, the environment, society or the world in general is currently in vogue. A probable reason for this development shall be proposed here. This so-called golden age cannot be dissociated from a rise of economic inequality. In 2014, Thomas Piketty published the results of his profound research in his bestseller "Capital in the Twenty-First Century". With extensive data he shows that the gap between rich and poor is indeed widening. The top 0.1 percent of the global population evidently owns on average around 10 million euros. If this data is correct, less than five million adults worldwide possess about 20 percent of the entire global wealth. The richest one percent own about half of the total wealth. (Piketty

2013: 438) There is an apparent need for taking action. While on the one hand inequality is on the rise, the general trust in politics to handle public welfare seems to be in decline.

In 1948 a British opinion poll found that nine out of 10 citizens thought of charity as dispensable. The government was expected to be the leading force in solving all major environmental and social challenges. Times have changed. Many so-called social entrepreneurs, companies and charities feel like they have to be the ones on the forefront of global change. (Bishop & Green 2015: 542) A study by the opinion research institute Gallup from September 2016 found that the trust American citizens have in politicians has reached a new low. While in 2004 63 percent reported having a “*great deal/fair amount of trust in political leaders*” (Jones 2016), merely 42 percent said the same in 2016. (ibid.)

Thorup (2013: 570) makes a point describing several approaches to modern philanthropy as a widely spread critique of failed or insufficient state efforts. A rather big part of society no longer has trust in politicians and therefore turns to alternative concepts. By applying business methods to charity, businessmen and women found a new way to capitalize on doing good deeds.

3. Shaping the world

It is crucial to explain the sort of power these institutions exercise in order to understand the influence a few huge foundations can have on global affairs. The *American Journal of Economics and Sociology* dedicated a whole issue to analyzing this topic.

On cultural hegemony

In the introduction, the editor Clifford Cobb emphasizes several times that the power of foundations is not visible at first glance. It is seldom talked about precisely because it is neither direct nor obvious. Its strength lies in being generally unnoticed by the public. At least to some extent, the owners of these foundations are able to regulate the public discourse on major issues. Especially in uncertain times they tend to interfere at one point or another. (Cobb 2015: 631-32)

Cobb describes the sort of the power they hold as “a form of cultural hegemony”. (Cobb 2015: 633) Hegemony, certainly a popular term in the social sciences, should not be underestimated. Cobb summarizes: “*The most effective sort of power is the kind that appears not to exist.*” (ibid.) People who are officially in charge exer-

cise their power in the public eye. Anybody in politics has to answer for actions taken. Moreover, this form of power is often short-lived. It can be taken away as easily as it has been given. Hegemony is much more stable and rarely challenged. It refers to the ideological tools used by a small group of people to secure their power. Through various channels, social norms and values are imparted. The instruments used range from knowledge transfer at schools and universities, books, films, articles and scientific papers to public events and speeches. Cultural hegemony works as soon as man-made norms become unspoken rules and social conventions. When something is perceived as the usual order of things it is usually left unchallenged. For many centuries the church has been a major player in this area. (Cobb 2015: 633-35)

Nowadays the power of the church is fading. Secular institutions and individuals have mostly taken over and, to some extent, filled the blanks. Some foundations certainly belong to this category. Being able to influence public opinion on specific topics can undoubtedly be a strong asset. The main message they wanted to spread was – and still is – simple: Powerful elites are a common part of any society. There always has been and always will be people who are better off. Moreover, it is perfectly normal and inevitable for institutions to grant them privileges. (Parma 2015: 678)

Philanthrocapitalism and Politics

It is interesting to note that philanthropists usually do not commit to a specific political party. This approach has a long history. Friedrich Hayek recommended this tactic not due to a lack of interest, but because he knew it to be beneficial. Political power can be short-lived and is highly dependent on public approval. Foundations would do well to avoid the uncertainty of a changing political climate. The idea can be traced back to a writing of Alexis de Tocqueville. Hayek took a great liking in Tocqueville. He went as far as proposing to name the Mont Pèlerin Society after his idol. A fellow economist hereupon made a strenuous appeal not to have a liberal organization associated with a Catholic. (McGoey 2015: 237) In the second volume of “*Democracy in America*”, Tocqueville (2010 [1840]: 479-83) investigates the origins of religious power in the United States. As he traveled through the States he was baffled to find out that unlike their French counterparts, American clerics did not hold public offices. They thought of this fact as the foundation on which their own power was based

upon. Political ideologies, Tocqueville notes, only appeal to a certain group of people among citizens. “Therefore, by allying itself to a political power, religion increases its power over some and loses the hope of reigning over all.” (Tocqueville 2010 [1840]: 483) Distancing themselves from the failures and the fleetingness of political power made their own last longer than any political party.

Many philanthropists have learned their lessons from Tocqueville’s findings. Most make sure to portray their charitable efforts as unpolitical and nonpartisan as possible. Charity, they agree, has to be widely viewed as being above politics. Still, it would be a mistake to assume that benefactors do not engage in policy development. On the contrary, their political aspirations are just more furtive. Lobbying is seldom conducted in an obvious way. Hayek’s Mont Pèlerin Society was not the only think tank to follow this strategy. He advised Antony Fisher insistently to launch an organization that would warm the British towards the idea of a free-market economy. As a result, Fisher established a neo-liberal think tank called Institute of Economic Affairs. The close association with Margaret Thatcher’s government made it well-known. Thus political issues can be reinforced while seemingly remaining non-political. (McGoey 2015: 238)

In an article of the *Stanford Social Innovation Review*, Teles, Hurlburt and Schmitt (2014: 46) ascertain the tie between a remarkable upswing in the philanthropic sector and particularly weak political parties between the 1960s and 1990s. It was a period in the United States when voters had little faith in governmental institutions and even less in their political representatives. In Congress, the power structure had changed too often for anybody to direct policies on a long-term basis. While both Democrats Republicans were – and still are – more like loose structures than tight organizations, politicians looked for ways to secure their influence elsewhere. As a result, think tanks, advocacy groups and lobbying organizations were mushrooming. Journalists, scholars and members of non-profit organizations prided themselves on being politically objective, and utilizing valuable sources of information and knowledge. Journalism hit its peak when it came to criticizing the government to serve the interests of the public. Foundations used the favorable situation to stir opinions in a beneficial direction. Intellectuals in universities and think tanks, to give an example, were the driving force behind a deregulation movement. They could not have done it without generous funding from several foundations.

Teles, Hurlburt and Schmitt explain a method of cross-party coalition they call “transpartisan” (2014: 48) as one way to deal with political polarization. The center of this form of advocacy is formed by “figures with unquestioned ideological credibility” (ibid). They function as gatekeepers to unconventional ideas. Transpartisan benefactors are challenged to create policies to support those figures. It is a strategy that, while effective, requires a lot of patience. Unorthodox examples are reforms in the U.S. criminal justice system. The Texas Public Policy Foundation, a right-wing think tank, initiated a project called Right on Crime. With it, the foundation advocates for a more gentle approach to penalizing perpetrators. They cleverly link the idea to the common skepticism of everything the government does. Although Texas and the Republican Party in general have a long history of campaigning for tough crime legislation, Right on Crime managed to get numerous Republicans on board. Figures on the left successfully desist from openly supporting the conservative initiative. Some have made contributions, but managed to stay out of the public eye. (ibid) The policies and initiatives that foundations support might be changing over time. Nevertheless, they usually are beneficial to their businesses. Giving away money to charity tends to be a safe investment.

Influencing the education system

The desire to leave one’s mark on the world is probably part of human nature. Though many want to make a lasting improvement, few have the means to pursue any project that crosses their mind. Although the thought to shape the world according to one’s own ideas may originate from an idealistic attitude, this paper has already tried to red-flag some of the more selfish reasons for doing good. While they might have different areas of influence, the approaches to staying in control are fairly similar.

Influencing education is crucial to maintaining hegemonic power. The interference begins in school. Bill Gates has invested billions in the United States’ education system. He has attempted to use his business knowledge to create more efficient schools. Though experts expressed their concerns, he funded the implementation of an evaluation system aimed to assess teacher’s performances using student’s test scores as a basis. Arne Duncan, the former Secretary of Education, liked the concept and adapted public policy. Gates himself admitted that the program was a

failure. (Strauss 2015) Still, it can be surprisingly easy for wealthy social entrepreneurs to shift public policies in a favorable direction.

Most big foundations try to gain a foothold in the tertiary education sector. There are several methods, the most obvious being donations to universities. Bill and Melinda regularly put out on their foundation's official website a list of the grants they have awarded to numerous institutions worldwide. It does not fail to impress. During the first half of 2016 a total of 129 entries had already been registered. Over 20 donations were given to individual universities. Strikingly many were awarded to the globe's most prestigious and already well-funded colleges, including Stanford, Oxford and Berkeley. Also among them is half of the United States' Ivy League: Yale, Harvard, Columbia and the University of Pennsylvania. Their share is worth several million dollars. These are only the grants given within the first six months of 2016. (Bill and Melinda Gates Foundation 2016)

Granting scholarships is an important means of forming the intellectual elite of the future. A significant amount of money is also spent on funding specific research programs and scientific institutes. However, foundations do not specifically prohibit any area of study. They do not tell students what subjects to study or scientists which questions they should tackle next. If this were the case, scholars would revolt sooner or later. This is not how it works. Still, they guide intellectuals indirectly. A simple explanation is that through financial aid foundations secure jobs for many academics. To put it in a nutshell: people who lead a comfortable and secure life are less likely to rebel. (Parmar 2015: 680)

Hegemonic power works effectively through socialization and indoctrination of the western idea of free markets. For this purpose foundations invest in various institutions, like schools and research programs, to steer the public into directions they are comfortable with. The Rockefeller Foundation spent decades funding scholars from other countries who continued their studies in the States. (Arnove/Pinede 2007: 404) Usually scientists learn quickly which research topics will be funded and more importantly, which will not. Enough advice is offered about issues that are recommended for further investigation. Hence, topics that could put the men and women behind the major foundations in an uncomfortable position are rarely pursued. An international elite predominantly influenced by western culture is thus created. (Parmar 2015: 681)

By mainly funding universities or in general organizations in rather rich countries, one could doubt their positive effect on the world's poorest. Believers in "trickle-down" economics, like Carnegie, argue that promoting the wealthy subsequently also benefits the poor. After all, rich people are the ones who consume and invest more, create jobs and keep the economic engine running. The term "trickle-down" theory is mainly used by its critics, one of them being Cambridge professor Ha-Joon Chang. In his critically acclaimed book "23 Things they don't tell you about Capitalism" he resolved prevalent misunderstandings about the way the economic system works. One of the book's chapters perfectly summarizes the basic issue, which is that "*making rich people richer doesn't make the rest of us richer*". (Chang 2010: 137) In the 19th century liberal supporters of "trickle-down" argued for the need to reinvest income to ensure a growing economy. The poor, they claimed, were lacking the ability to see the bigger picture and exercise abstinence. They would simply spend all their money right away instead of investing it, and the economy would eventually drop. (ibid: 140-41)

History proved them wrong. Following the Second World War, the rich of Europe, the United States, Canada, New Zealand and Australia had to pay high taxes. At the same time governmental spending increased in most of these countries. Instead of its downfall, capitalism was strengthened and led to what is now called the "*Golden Age of Capitalism*" between the 1950s and the 1970s. The era ended about a decade later, with a cutting-back of the welfare state as the new policy. The taxation of the rich was decreased, too. As a result, inequality rose again. (Chang 2010: 142-45)

Paternalistic Philanthropists

A symptom of the social entrepreneurs' attitude is the "invitation-only" principle, which enjoys vast popularity with a tendency to rise further. Garry Jenkins came to the same conclusion. He compared the "invitation-only" policies of all major corporate and independent foundations in the United States. While in 1994 only six percent had exercised this practice, 29 percent of the sampled institutions fell under this category in 2008. (Jenkins 2011: 29) The number of leading philanthropists adopting a "don't call us, we'll find you" approach has risen significantly, as Jenkins summarized. Nearly half of the foundations looked at (48 percent) confirmed that decisions on where to invest are almost exclusively taken in-house. (ibid.)

The approach to charity of billionaires like Bill Gates is a paternalistic one. (Cobb 2015, p. 632) In short, they think they know better. Apparently they believe themselves to be more capable than the government. A rather well-known critic is the German Peter Kramer, who is a philanthropist himself: “*These guys have so much power through their wealth that they, instead of the government elected by the people, can decide what’s good and what should be promoted and subsidized,*” Mr. Kramer says. “*That can be dangerous.*” (Strom 2010)

It may surprise that philanthropists and their institutions hardly ever come under scrutiny. Once again the power of hegemony works in their favor. There is a general understanding that everyone should be allowed to dispose freely of their assets. After all, the right of ownership is engrained in most people’s perception of right and wrong. Garry Jenkins, a jurist at the University of Ohio, studied the impact of philanthrocapitalism on the legal sector. In one of his studies he noted that people tend to assume the best when it comes to charity. However, Jenkins concluded, such activities, though legal, can still be disputable. (Jenkins 2011: 6) Furthermore, it is tempting to have confidence in the problem-solving abilities of the self-declared social entrepreneurs. It is a reassuring thought to believe that there are people who use their extensive business skills to take care of the most pressing challenges.

In contrast to politicians, philanthropists rarely have to justify their actions. Unlike those who hold an elected office, they do not need to tiptoe around a subject just to keep the voters’ approval. Although exercising power through their immense fortunes means they are neither watched closely, nor judged by the outcome of their undertakings. Without any democratic legitimation, they often have an extensive impact on major issues like global healthcare, education and environment. (Cobb 2015: 632) It might be important to add that the media *is* catching up to some of the foundations’ ventures. Nevertheless, the validity and the goodwill behind these projects are hardly ever questioned.

It seems safe to say that social entrepreneurs have largely failed to meet their promises. The gap between rich and poor is widening. Inequity has not been reduced. Inequality is rising. Yet, the major foundations are successful in another area. They are good in maintaining cultural hegemony. The intellectual elite is an important pawn in this game. Parmar (2015: 681) even calls the “*construction of global knowledge networks*” the “*(...) principal long-term achievement*” of American foundations. The impact goes well beyond the Ameri-

can border. This development started several decades ago. In the 1950s, the foundations Rockefeller, Ford and Carnegie invested in countries oversea, such as Indonesia and Nigeria. A small circle of gifted students who fancied western knowledge and education were given a head start in their careers and the opportunity to make their regions more competitive. It was a smart move on the part of Rockefeller and pioneers like him to enlarge the network. (Parmar 2015: 680) It is growing still. Of course this has little to do with the official mottos of the individual institutions, like eliminating poverty, illness or illiteracy. Still, overall they are fairly successful in maintaining hegemonic power and creating a safer business environment.

4. Conclusion

Ironically enough, failures in the charity sector support the very existence of these foundations. If such entities were to succeed in their quest to solve the globe’s problems, they would have to be shut down. Philanthropy in general depends on reproducing the social hierarchy and thus maintaining the gap between rich and poor. Plainly spoken, it needs the world to stay an unequal place.

Bill and Melinda Gates are probably the most prominent representatives of modern-day philanthropy. Just like many others, their self-assurance and paternalistic approach prevents them from trusting more of their money to governmental control. While a democratic legitimation of the billionaire’s extensive spending is non-existent, they are still able to influence public policies with it. One might be inclined to be lenient towards people who give away a fraction of their wealth. After all, at least some part of the grants of generous billionaires reaches people in need. The catch is that these billions have to be acquired before they can be spent. Most of the world’s richest philanthropists owe their wealth to the relentless pursuit of profit. Philanthropists tend to be individuals who financially thrive on inequality. Philanthrocapitalism can be seen as an investment to secure a stable business environment and maintain power. The big names in the field of philanthropy do some good as long as it is on their own terms. “*They are here to save the world – as long as the world yields to their interests.*” (McGoey 2015: 244)

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