



Just Another Emperor? The Myths and Realities of Philanthrocapitalism

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A new movement is afoot that promises to save the world by revolutionizing philanthropy, making nonprofit organizations operate like business, and creating new markets for goods and services that benefit society. Nick-named "philanthrocapitalism" for short, its supporters believe that business principles can be successfully combined with the search for social transformation. There's no doubt that this is an important phenomenon, and although there are no exact definitions, I think there is a distinctive heart of philanthrocapitalism that is characterized by three distinguishing features:

- very large sums of money committed to philanthropy, mainly the result of the remarkable profits earned by a small number of individuals in the IT and finance sectors during the 1990s and 2000s;
- a belief that methods drawn from business can solve social problems and are superior to the other methods in use in the public sector and civil society; and
- a claim that these methods can achieve the transformation of society rather than increased access to socially beneficial goods and services.

What does the evidence tell us about these claims? It isn't possible to "prove" or "disprove" the claims of the philanthrocapitalists, since the evidence simply isn't there. This is a very young field, so this is not surprising. There are some serious studies of social enterprise, but by and large the literature is anecdotal or written by evangelists more interested in publicity than rigor. This is not a field where self-criticism or humility will win you any plaudits.

One clear subtext of the debate is the philanthrocapitalists' disappointment in the achievements of groups in civil society, which are criticized as "amateurish" and "riddled with inefficiencies," always in contrast to the operations of business.¹ There's also a tendency to make a fetish of certain kinds of "innovation" that privilege business thinking rather than to look at the impact that civil society makes on its own terms. The bedrock of citizen action may be effective but not especially "new": for example, the day-to-day work of solidarity and caring wins no plaudits, but it is incredibly important in holding societies together. Philanthrocapitalists love handing out new prizes—for building private spaceships and electric cars, for sequencing the human genome, and for ending global warming—but not for the Ladies Auxiliary or for reviving New Orleans.²

At the macro-level—that is, at the level of national social and economic performance—there's no evidence to

suggest that increasing marketization in the social sectors brings better results than public or “pure” civil-society provision. The privatization of utilities and pensions has turned out to both inefficient and socially divisive, and during the 2000s, its failings helped push Latin America to the left.³ Worldwide research by United Nations Research Institute for Social Development shows that countries with longer life expectancy and lower under-five mortality spend a significantly higher proportion of their gross domestic product on government health care, not private or social enterprise.⁴ As Laurie Garrett has shown, the one thing necessary to address global health pandemics like HIV/AIDS is a strong public-health infrastructure, not a patchwork quilt of private and social provision.⁵ Sustained health progress requires that technological advances be integrated with the redistribution of political power and broad-based participation in the economy.⁶

Both recent history and contemporary experience suggest that the best results in raising economic growth rates while simultaneously reducing poverty and inequality come when markets are subordinated to the public interest, as expressed through government and civil society.⁷ Public and private interests must be separated so that governments have the autonomy they need to oversee development. This was true in East Asia after 1945, when the so-called Asian tigers transformed themselves from a GDP equivalent to that of Chad, Pakistan, and Haiti to a level that rivals parts of Western Europe; it was true in other successful experiences of international development, such as Chile and Botswana during the 1980s and 1990s, and it is true of China and Vietnam today.⁸ Some would say it was even true of the United States in the nineteenth century.⁹ In all these countries, business was encouraged to “do its thing,” but in service to long-term goals that favored redistribution and social stability by “governing the market,” in the words of a famous book by Robert Wade.¹⁰

Today, countries that practice similar policies score high on their social indicators (think Sweden, the Netherlands and Canada), while those like the United States, which have strayed from this path, remain more violent and unequal, though they can still enjoy high rates of productivity growth in their economies. The United States has become one of the Western world’s less socially mobile societies and over the past 30 years has delivered stagnant incomes to a large minority. Meanwhile, the share of national income accounted for by the top 1 percent of earners has reached its highest level since 1928, at almost 22 percent.¹¹ Over the past 20 years, in terms of the latest global rankings of life expectancy, America has dropped from 11th to 42nd place.¹² Things look better on the Environmental Performance Index composed annually by Yale University (the United States is number 28), but now the Economist has devised an index that pushes the United States so far down the ranks that even Yemen scores higher (the reasons are: America’s huge prison population, easy access to firearms, and burgeoning military budget.)¹³ If author Oliver James is to be believed, “selfish capitalism” has already produced a measurable decline in our emotional well-being, “crippling personal agency despite the avowals of individual choice.”¹⁴

Let’s take the analysis down a few levels and look at the two areas in which philanthrocapitalists are already very active.

Strengthening the Capacity of Civil-Society Organizations

The first area where one would expect an impact to be made lies in improving the financial and management capacities of civil-society organizations.

I’ve always been confused by the way in which social entrepreneurs and venture philanthropists differentiate themselves from the rest of civil society on the grounds that they are “results based” or “high performance,” implying that everyone else is uninterested in outcomes. Sure, there are mediocre citizens groups, just as there are mediocre businesses, venture philanthropists, social entrepreneurs, and government departments. So “why import the practices of mediocrity into the social sectors,” as Jim Collins, author of *Good to Great*, asks in his pamphlet on nonprofit management?¹⁵ What separates the good and bad performers is not

whether they come from business or civil society but whether they have a clear focus to their work, strong learning and accountability mechanisms that keep them heading in the right direction, and the ability to motivate their staff or volunteers to reach the highest collective levels of performance.

In some areas, civil-society managers have just as much, if not more, to offer, because they can also see things in significantly different ways: mobilizing teams through more democratic structures, for example, using reflective and contemplative practices to improve their performance, developing accountability mechanisms that bring in all their stakeholders, and finding innovative ways of measuring their impact on both short and long-term goals. A recent study published in the *Nonprofit Quarterly* found that nonprofit leaders were actually more effective than their for-profit counterparts on 14 out of 17 dimensions of leadership practice, including risk taking, persuasiveness, and vision.¹⁶

Civil-society organizations need lots of advice, but as much from social science (which the philanthrocapitalists often ignore) as from consultants in management and finance. This doesn't mean that companies like the Bridgespan Group and McKinsey & Company are irrelevant to civil society. They are increasingly active in the not-for-profit world (funded in particular by venture philanthropy), and the services they offer are often very good. In his "Report from the Front Lines," Eric Schwarz, the founder of Citizen Schools Inc. (a U.S. social enterprise) accepts that the substance of what they bring has helped his organization considerably but rejects the implication that this proves private-sector superiority as "flawed and highly offensive."¹⁷

"Solutions that work have to work economically" is a mantra of this movement, but this doesn't necessarily imply the raising of commercial revenue. Philanthrocapitalists sometimes paint reliance on donations, grants, and membership contributions as a weakness for nonprofits, but it can be a real strength, because it connects them to their constituencies and the public—so long as their revenue streams are sufficiently diverse to weather the inevitable storms along the way. In that respect, more needs to be done to reduce the transaction costs of dealing with foundations and to address the "fashion consciousness" that is the curse of foundation funding: old, new, and all stops in between. In many cases, this would be a safer bet than pulling in more revenue from commercial capital providers, with all the risks that that entails.

"Nonprofits must understand that the desire to earn income and the desire to use business practices to promote social change are two different and almost entirely incompatible objectives. . . . Don't mix your models," is the warning of at least two cautionary tales from the field.¹⁸ These tradeoffs are not inevitable (especially if commercial revenue generation is separated from advocacy and community mobilization, inside or in a different organization completely), but they are real.¹⁹ Introducing the different logics of civil society and the market into the same organization can have a negative effect by confusing the bottom line still further, complicating accountability, and stimulating mission drift.

Expanding the Market for Social and Environmental Services

We already know that for-profit involvement in human services is often ineffective. This is what the social in social enterprise is supposed to fix, but does it? The answer is "Yes, to an extent," and "Sometimes" if the bar is set a bit higher.

For many, the most exciting examples of philanthrocapitalism are the huge investments in global health that the Gates Foundation is making, along with the Clinton Global Initiative and others. Given that someone dies from malaria every 30 seconds and that treated bed nets can be produced and distributed at very low cost, these investments are extremely important, and there's every reason to think that business and markets can help bring them to fruition. Even so, the latest guidelines from the World Health Organization recommend free distribution to ensure that everyone who needs a net gets one.²⁰

The other high-profile success story is micro-credit or micro-finance—in some people's minds part of a broader

claim that markets are the best way to eradicate poverty in developing countries, in contradiction to the lessons of history described in brief above. Although very few rigorous evaluations of the impact of micro-finance exist, it's clear that increasing poor people's access to savings, credit, and other financial services is a very good thing—and in one or two countries it has already reached significant scale (in Bangladesh alone, there are 21 million “clients” and 105 million “family members” who are recipients).²¹

Micro-finance increases people's resilience and reduces their need to sell precious assets in times of trouble, but on its own it doesn't move them out of poverty. That requires other, more complicated measures to develop a sustainable livelihood and create more well-paying jobs through large-scale, labor-intensive agro-industrialization; to address the deeper issues of disempowerment that keep certain people poor (land rights for example, or patriarchal social structures); and to get governments to redistribute resources on the necessary scale through health, social welfare, public works, and education.²² Micro-finance institutions also need continued subsidies to reach the very poor, which raises questions about the philanthrocapitalist assumption that market methods, social goals, and financial sustainability are mutually supportive.²³

The success of micro-finance has spurred the use of similar techniques for other goods and services, like cell-phones and insurance. “The mobile phone. . . may be the developing world's Industrial Revolution for creating prosperity,” says the Hudson Institute.²⁴ Or perhaps not. Grameen Phone in Bangladesh has achieved phenomenal success in spreading cell phone usage among the poor through female micro-entrepreneurs. Cell phones have a potential economic impact (on productivity) and social impact (on civil-society mobilization, for example), but as Grameen Phone's founder once told me, “It's really just good business.”²⁵

C.K. Prahalad's famous Bottom of the Pyramid (BOP) theory has become a core text of philanthrocapitalism by promising profits, poverty eradication, and empowerment—all in a seamless package. Prahalad claims that huge, untapped markets lie at the base of the global income distribution (or “pyramid”), which—when supplied with goods the poor can buy and sell—will lift them out of poverty and also transform their lives socially and politically.²⁶ But “the fortune and glory at the bottom of the pyramid are a mirage,” says Aneel Karnani from the University of Michigan, “The fallacy of the BOP proposition is exacerbated by its hubris.” Karnani produces evidence to show that many of the case studies used in support of BOP involve consumers who are not poor at all and that the products and services that are sold by “micro-entrepreneurs” have less market penetration and productivity-enhancing potential than is claimed, so they will fail to produce sustainable incomes.

What does this evidence tell us? First, it is perfectly possible to use the market to extend access to useful goods and services. Second, few of these efforts have any substantial, long-term, broad-based impact on social transformation, with the possible exception of micro-credit. The reason is pretty obvious: systemic change involves social movements, politics, and the state, which these experiments generally ignore.

At a smaller scale, there are increasing numbers of initiatives that successfully deploy market methods to distribute goods and services that can benefit society. Examples from the United States include Think MTV.com, an online community that serves as a platform for youth activism;²⁷ free channels for civil-society groups on YouTube and other Web sites;²⁸ SunNight Solar (which produces solar-powered flashlights and sells them at a discount); and the One Laptop per Child program, which manufactures cheap computers running on open-source software with help from Google.²⁹

Then there are social enterprises that work with particular target groups or sectors: brokerage firms like Altrushare Securities, which makes profit from the stock market but shares it with “struggling communities” because it is owned by two nonprofits;³⁰ Bud's Warehouse in Denver, a career and life-skills training program for people who are rebuilding lives after struggling with addiction, homelessness, or prison;³¹ and Housing Works in New York City, which generates \$2 million annually for its work with homeless people from its used-book café (but still relies on grants for \$28 million of its \$30 million budget).³² These techniques are especially

common in the food industry, employment training and workforce development for low-income and other marginalized groups, and environmental goods and services like recycling, since this is where enough demand exists to generate a profit at a price point affordable to the poor.

These are important experiments, but the evidence suggests that they are much more difficult to operate successfully at scale than the philanthrocapitalists admit and that they usually experience some tradeoffs between their social and financial goals—at least if one goes by scholarly and policy-oriented studies. Here’s a sample of their findings:

- A Stanford Business School study of 12,000 environmental NGOs between 1999 and 2006 found that “pragmatic” organizations failed more often than “pure” ones (i.e., those that did not compromise their principles to attract more revenue or profile), partly because their supporters preferred it that way. As a result, membership and fundraising is increasing in “pure” organizations and decreasing in “pragmatic” ones. “Social movements are most effective when they are purest, most radical, and most disorganized,” write Conner and Epstein.³³
- A survey of 25 joint ventures in the United States shows that 22 had “significant conflicts between mission and the demands of corporate stakeholders” and that the two examples that were most successful in financial terms deviated most from their social mission by reducing time and resources spent on advocacy, weeding out clients who were more difficult to serve, and focusing on activities with the greatest revenue-generating potential.
- A survey of human services organizations in Canada analyzed how their mission shifted out of existing activities and into “community counseling” as a result of the expected financial benefits from contracts in this area. These “were supposed to be the big cash cows of the twentieth century . . . making counseling centers tons of money.” They failed.³⁴
- Detailed case studies of social enterprises in the United States by Seedco, including Community Childcare Assistance which closed in 2003 after failing to secure the contracts it needed to operate successfully. “When organizations are expected to meet for-profit goals while operating under nonprofit rules,” the survey concluded, “the double bottom line can become an impossible double bind. . . . The more social responsibilities a venture assumes, the more difficult it is to succeed in the marketplace.”³⁵
- An evaluation of Project Shakti, a public-private partnership promoted by Hindustan Lever (HLL) in India, which integrates low-income women into the marketing chain of its producers, selling things like shampoo and detergent “to boost their incomes and their confidence.” But there is “no evidence that the project empowers women or promotes community action” as opposed to making them “saleswomen for HLL,” often at considerable cost to themselves, since there are cheaper brands available, returns on investment are therefore low, and the work is very hard.³⁶

It would be foolish to generalize too much from these cases, but this is the evidence we have, and it shows how difficult it is to blend social and financial bottom lines. Few of these experiments are truly self-sustaining, mission drift is common, and failure rates are high. There’s little room to maneuver and always tradeoffs to be made, and these realities can compromise the work’s deeper impact on social transformation.³⁷

Even when successful, social enterprises make soft targets for a takeover by conventional investors once they grow to a certain scale and profitability: think Ben & Jerry’s, the Body Shop, and AND 1 shoe company. When it was taken over in 2005, AND 1 had all its social programs canceled.³⁸

The other problem is scale: “fair trade” is estimated to reach 5 million producers and their families across the developing world, while social enterprises had earned revenue of only \$500 million in the U.S. in 2005. In Britain they created 475,000 jobs (and \$30 billion in value), which is substantial, though small in relation to the

size of the economy.³⁹ In societies like the United Kingdom, where government and social enterprise are already symbiotic, nonprofit service provision can enhance public services. But where government is weak, it simply adds more patches to a quilt already full of holes.

Finally, is there any evidence that civil society is being damaged by these trends? Civil society works best when its ecosystems are healthy and diverse, yet we know from the limited research available that over the past 50 years these ecosystems have eroded. Diversity is declining as norms of good practice converge around a certain vision of “professionalism.” Distance has increased between intermediary advocacy groups and NGOs and the constituencies on whose behalf they are supposed to work; older associations that used to bring citizens together across the lines of class, geography, and to some degree race, have disappeared, and groups built around single issues or identities have grown.⁴⁰ “Technocracy has transformed mediating institutions which once served as civic meeting grounds—locally grounded schools, congregations, unions, and nonprofits—into service-delivery operations,” says Harry Boyte, the leader of the civic agency movement in the United States.⁴¹

In the United States at least, there are already signs of a growing fundraising divide between large national organizations and smaller local organizations, and between those working on advocacy and service delivery and those working on community organizing, grass-roots capacity-building, and the crucial task of linking citizens across constituencies.⁴² In addition, the increasing control orientation of donors that is such a feature of philanthrocapitalism is reducing the autonomy and flexibility of civil-society groups, which are forced to spend and report on each donation exactly as prescribed. As a result, the U.S. nonprofit sector may be “getting larger but weaker,” says Pablo Eisenberg, a staunch critic of what he calls the “corporatization of nonprofit groups.”⁴³

While the shape of civil society has certainly changed, not all these changes undermine social transformation, and it’s impossible to disaggregate the impact of philanthrocapitalism from other influences on these trends. This evidence is obviously not conclusive, but it does suggest a pattern: success where one expects it, tradeoffs where rationalities collide, and—as a result—less impact on social transformation than the enthusiasts have often claimed. As a report from the W.K. Kellogg Foundation puts it, “The emphasis on sustainability, efficiency, and market share has the potential to endanger the most basic value of the nonprofit sector—the availability of ‘free space’ within society for people to invent solutions to social problems and serve the public good.”⁴⁴

The Shortcomings of Philanthrocapitalism

In conventional market thinking, “the social responsibility of business is to increase its profits,” as Milton Friedman famously declared almost 40 years ago in the *New York Times*.⁴⁵ That’s because the invisible hand is supposed “to be beneficial for the people it orders,”⁴⁶ maximizing social welfare as a by-product of self-interested but unconscious interactions, with some light regulation to ensure that business operates inside a framework of agreed social rules. One of the triumphs of markets is that they enable “separated knowledge to assure that each resource is used for its most valued use, and is combined with other resources in the most efficient way.”⁴⁷

Philanthrocapitalism gives this theory an extra twist by adding more explicit social and environmental considerations into the workings of the market. To what extent, however, can markets change, correct, or transform themselves? This question is especially relevant because philanthrocapitalism brings concentrated power and assumes that the provider knows what’s best for the recipient.

In civil society, social transformation is usually a deliberate goal to be achieved through conscious collective action—civil society is the outcome of interactions by dispersed individuals and organizations too, though all

acting with a purpose. The energy in civil-society dynamics is external, applied through pressure or partnerships of various kinds, and often aimed at getting governments to tax and regulate the business sector so that it contributes more to the public good. That's why the difference and independence of civil society is so important. "The move to distinguish social enterprise from private enterprise suggests that social objectives stand distinct from the interplay of individual pursuits."⁴⁸

Going further, civil society is open to more radical alternatives rooted in completely different visions of property rights, ownership, and governance. "Should social value best be created by changing the way the economy is run or by increasing philanthropy to make up for the deficiencies and inequalities of an economy that is basically sound?"⁴⁹ It is these different approaches—internal, external, radical, and reformist—that animate the philanthrocapitalist imagination, but could it be that civil society and the market are asking different questions, not simply finding different answers to a question they hold in common?

Markets work because they stick to a clear financial bottom line, use a simple mechanism to achieve it (competition), and require a relatively small number of conditions to make that mechanism work (like the presence of multiple sellers from whom buyers can choose and access to information among consumers). Social transformation, by contrast, has none of these things, with many bottom lines and strategies to reach them, and relies on forces which are outside the control of any one set of actors. Those goals might be to reduce consumption, not increase it, so that the majority of the world's population might actually have a chance to secure a sustainable future. Economic efficiency is not the same as efficiency when measured by human fulfillment,⁵⁰ and for all sorts of well-known reasons, market norms do not properly express the valuations of a democratic society: they don't price real assets like the environment and social cohesion, they can't represent the needs of the future in the present, and they are full of imperfections that lead to problems like monopoly.

That's why we need alternative allocation mechanisms through government and civil society for things like public spaces or access to the Internet, which markets would distribute unequally, if at all. Civil society and the market are not just different; they pull in opposite directions in many important ways, and there is a long history of the risks involved in mixing them together.

The *raison d'être* of markets is to satisfy personal wants according to the purchasing power of each consumer, so expecting "creative capitalism" in Bill Gates's words to "serve poorer people" doesn't make much sense against the background of large-scale inequality.⁵¹ By contrast, the best of civil society exists to meet needs and realize rights, regardless of people's ability to pay. There is no price of entry to civil society except the willingness to work together. Of course, people can still be excluded from participating in citizens' groups for social or political reasons, but rarely as a result of a lack of effective demand.

Competition versus Cooperation: Individualism or Collective Action?

Effective markets are characterized by healthy competition against a clear bottom line. Even companies that practice "triple-bottom line" accounting revert to the financials when the rubber hits the road, since businesses are legally structured to deliver shareholder returns. Civil society, by contrast, faces many bottom lines, and works through cooperation and sharing to achieve them. There's competition in civil society too, of course (for funding and allegiances), but it's not the basic mechanism through which citizen action works. That's because civil society is good for many things where competition would be illogical or ineffective (to name just three: building community, promoting voice and accountability, and maintaining one's identity), whereas markets are good for only one: where competition is essential (producing and exchanging goods and services).

What lies at the core of markets is individualism and the role of the individual entrepreneur as the prime proponent of change. What lies at the heart of civil society is collective action and mutuality, which "challenge rather than accept and adapt to the atomization and individualization of society."⁵² Jeff Skoll is proud to say

that social enterprise “is a movement from institutions to individuals,” because they “can move faster and take more chances.”⁵³ Indeed they can, but can they also generate system-wide changes in social and political structures that rely on collective action and broad-based constituencies for change? In his pamphlet “Everyone a Changemaker,” Bill Drayton describes how social entrepreneurs “decide that the world must change in some important way . . . and build highways that lead inexorably to that result.”⁵⁴ It’s no coincidence that he offers so few examples of genuinely systemic change and makes no mention of the many ways in which systemic change has already been achieved in relation to the environment, civil rights, gender, or disability. In all these cases, change came about through the work of movements rather than heroic individuals; and in all these cases, change involved politics and government as well as civil society and business.

Technocracy versus Politics: Reform or Transformation?

Although the landscape is shifting a little as a result of accumulated experience (especially at the Gates Foundation) the great majority of venture philanthropy supports technical solutions and rapid scaling up (“Technology plus science plus the market brings results”). “The new philanthropists believe there must be a magic bullet for everything, an instant cure for poverty,” says Sanjay Sinha, the managing director of Micro-Credit Ratings International Ltd. in India. “They are not willing to believe that poverty reduction is a far more complicated matter than the idea of e-Bay.”⁵⁵

Where philanthrocapitalists see addressing the “misalignment between social goals and economic incentives” that lie at the root of the problem,⁵⁶ civil society names and addresses the realities of injustice: racism, sexism, homophobia, and rights—terms that rarely appear on the lips of any of the “new” foundations. This is not just semantics. It comes from business’s aversion to the kind of protest and hard-edged advocacy that were central to past successes, for example, in civil and women’s rights. “Social entrepreneurs are basically revolutionaries but are too practical to be placard-carrying types,” says Pamela Hartigan, the Schwab Foundation’s managing director.⁵⁷ It’s good that Hartigan’s “sisters” in the struggle for the vote didn’t heed this misleading advice.

In business the pressure to quickly go to scale is natural, even imperative, since that’s how unit costs decline and profit margins grow, but in civil society things have to move at the pace required by social transformation, which is generally slow because it is so complex and conflicted. Having inherited their wealth or made it quickly, the philanthrocapitalists are not in the mood to wait around for results. In business, scaling up tends to be “direct” (more production, larger markets, and more consumers), whereas in civil society, scale tends to come through “indirect” strategies that change policies, regulations, values, and institutions—for example, the rules within which individual producers operate in order to generate a bigger, systemic impact.⁵⁸ Business wants “smooth distribution, quick certain payment, and really high volumes” in order to maximize returns, whereas civil society might focus on small numbers of people and their concerns, which are rarely, if ever, smooth.⁵⁹

Market Metrics versus Democratic Accountability

Shifting from public to private delivery takes decision making out of the public domain and potentially takes considerations of the public interest off the table. “Public spending is allocated democratically among competing demands, whereas rich benefactors can spend on anything they want, and they tend to spend on projects close to their hearts.”⁶⁰ “I remember a day,” laments Robert Reich, “when government collected billions of dollars from tycoons like these, and when our democratic process decided what the billions would be devoted to.”⁶¹

Business metrics and measures of success privilege size, growth, and market share, as opposed to the quality of interactions between people in civil society and the capacities and institutions they help to create. When

investors evaluate a business, they ultimately need to answer only one question: how much money will it make? But as Jim Collins puts it, money is an input to citizens groups, not a “measure of greatness.”⁶² And while work is being done to quantify the “social rate of return” from investments in citizen action, this is extremely difficult, perhaps impossible, to do, leaving philanthrocapitalists to rely on measuring the economic benefits that derive from projects that create employment, housing and the like.

In civil society, however, processes of engagement with other institutions and constituencies may be more important as a measure of impact than are tangible outputs or the direct products of each organization, and impact relies on forces, such as government action, which are usually out of their control. Social transformation requires humility and patience, the determination to hang in there for the long term—a mirror image of the impatience and short-term thinking that drives most markets and entrepreneurs.

Blending and Blurring: Can These Differences Be Bridged?

These are deep-rooted differences, but are business and civil-society rationalities unbridgeable, frozen forever in some mutually antagonistic embrace? Philanthrocapitalism answers this question with a loud and emphatic no; social enterprise, venture philanthropy, and corporate social responsibility have staked their future on the claim that these very different philosophies can be brought together to mutual advantage.

Let’s start by acknowledging that all organizations produce different kinds of value in varying proportions—financial, social, and environmental—whether they are citizens groups or business. This is the foundation for Jed Emerson’s Blended Value Proposition, which has been influential among the philanthrocapitalists.⁶³ These proportions can be changed, or “blended,” through conscious or unplanned action, but not without real implications for those forms of value that are reduced, challenged, or contradicted in return, and this is where the theory of blending really begins to wobble. For one thing, what sort of “blends” are effective in work for social transformation: strong, weak, corporate, fair trade, or organic? Does one set of values become diluted or polluted when you mix it with the others? Are there some things—like oil and water—that do not mix at all?

Discussions of blended value seem to take place in a world free of tradeoffs, costs, and contradictions. Positive synergies are possible between service provision and advocacy, for example, and service providers can certainly get more social value against an acceptable financial bottom line, but this is much less likely for other forms of citizen action, since most have nothing to sell or trade at all. They are their social value, and the consequences of seeing it eroded could be calamitous.⁶⁴ There is also plenty of experience among organizations that started off with a social purpose and steadily lost it as they became more embedded in the market: this was the experience of many of the mutuals, micro-credit organizations and building societies that flourished in Europe in the nineteenth and twentieth century.

The second theory underpinning philanthrocapitalism extends competitive principles into the world of civil society, on the assumption that what works for the market should work for citizen action too. Some call this the creation of a “social capital market,” in which non-profit groups would compete with each other for resources, allocated by investors according to certain common metrics of efficiency and impact.⁶⁵ Believers in this school of thought therefore set much sway on the collection of standardized data and its storage on the World Wide Web, so that those who want to give to charity have more information to guide their decisions—like GuideStar and GiveWell in the United States, which “studies non-profits in particular fields and ranks them on their effectiveness”—defined as “the most lives saved for the least money”—an assessment that has defeated the best social scientists for at least a hundred years.⁶⁶ Finding better ways to measure success is obviously important, but the number and range of indicators that can be standardized and generalized across the civil society universe is small—things like administrative costs and short-term outputs—and these are rarely significant as markers of deep and long-term impact.

Changes in values, voice and power relations are the critical factors and they can certainly be evaluated, but it

doesn't make much sense to tie these changes to individual organizations operating in a two- or three-year time frame.

"In the past," says David Bornstein, "citizen-sector organizations have been insulated from the forces of head-to-head competition. However, as the sector continues to attract talent, competition is likely to intensify, particularly as social entrepreneurs seek to capture the benefits of their innovations [emphasis added]."⁶⁷ Bornstein goes on to claim that competition will promote collaboration—there's that "cost-free blend" again—because "weak performers" will copy strong ones, an assumption that ignores how citizen action actually works—collegially but in different ways for different purposes and constituencies. "Unproductive citizen-sector organizations can plod along ineffectually for decades,"⁶⁸ he says, but others might just as reasonably say that they work quietly creating results that his metrics do not and cannot count.

Competition might even make things worse, by pushing nonprofits to economize in key areas of their work: to eschew, for example, the most complicated and expensive issues and avoid those most difficult to reach. Outside service provision, it's difficult to see how competition would make any sense at all, and not just because the relevant market conditions are unlikely to exist. Would the Ladies Auxiliary compete with other groups to host the children's Christmas party? Would there be increasing competition between voluntary fire and ambulance brigades or between Moose and Elks or among groups dealing with different issues like HIV and schools? And who would really benefit? It's true that advocacy groups compete for members and for money, but often they cooperate, and in any case organizations are not easily "substitutable" in civil society because affiliations are based on loyalty, identity, and familiarity, not on the price and quality of services provided. It's unlikely that members of the NAACP will cross over to the Puerto Rican Legal Defense Fund if they feel dissatisfied with their leaders.

It's because of these questions that collaboration among separate organizations may be better than blending or competition. It preserves the difference and independence required to lever real change in markets (not just extend their social reach) and to support the transition to more radical approaches that might deliver the deeper changes that we need. And it restricts business influence to the two areas where it makes good sense. The first is social and environmental service-delivery, which is the core of social enterprise and the prime focus for most venture philanthropy investments. This approach is theoretically sound because it supports markets in doing what they are good at but with more of a social twist, and it doesn't encourage business to stray into territory where it has no competence or expertise.

The second is the use of business experience to strengthen the financial management of civil-society organizations, especially those that have something to sell or trade in the marketplace. If you want to play in the sandbox of the market, you obviously need to understand how the market works and how best to engage it. These are not skills that most nonprofits have, so one would expect that business should be able to help them, perhaps creating some spillover effects in the process that strengthen their social mission.

Apart from these two areas, there's little to support the view that philanthrocapitalism will save the world, and the most promising efforts that might do so have little to do with social enterprise, venture philanthropy, and corporate social responsibility: new business models built around "the commons" ("the wealth we inherit or create together"), like open-source software and other forms of nonproprietary production;⁶⁹ community economics and worker-owned firms, which increase citizen control over the production and distribution of the economic surplus that businesses create;⁷⁰ cooperatives like Mondragon, with more than 100,000 staff in several dozen countries and doubling in size every decade for the past 30 years;⁷¹ and different ways of sharing resources with one another like "ecosystem trusts" and mutual funds that pay dividends to everyone—ideas that have been recently publicized by Peter Barnes, for example, the cofounder of Working Assets.⁷²

These are all areas where civil society influence is far more important than the influence of the market, and they take us into nonmarket solutions to social problems or market transformation, using spaces free from the rigors of the market. The problem is that none of these approaches are high on the philanthrocapitalist menu, perhaps because they would transform the economic system completely and lead to a radically different distribution of its costs and benefits. Systemic change has to address the question of how property is owned and controlled and how resources and opportunities are distributed throughout society. That's presumably why Jim Collins, in a pamphlet that seems conspicuous by its absence given his stature in the corporate world, concludes that "we must reject the idea—well-intentioned, but dead wrong—that the primary path to greatness in the social sectors is to become more like a business."⁷³

Moving Forward Together: Civil Society and Philanthrocapitalism

Philanthrocapitalism offers one way of increasing the social value of the market, but there are other routes that could offer equal or better results in changing the way the economic surplus is produced, distributed, and used: the traditional route that uses external pressure, taxation, and regulation; the philanthrocapitalist route that changes internal incentives and gives a little more back through foundations and corporate social responsibility; and more radical innovations in ownership and production that change the basis on which markets currently work. We don't know which of these routes carries the greatest long-term potential, though all of them rely on civil society as a vehicle for innovation, accountability, influence, and modified consumption, and especially for getting us from reformist to transformational solutions.

"What could possibly be more beneficial for the entire world than a continued expansion of philanthropy" asks Joel Fleishman in his book that lionizes the venture-capital foundations.⁷⁴ Well, over the past century far more has been achieved by governments committed to equality and justice and by social movements strong enough to force change through, and the same might well be true in the future. No great social cause was mobilized through the market in the twentieth century. The civil-rights movement, the women's movement, the environmental movement, the New Deal, and the Great Society were pushed ahead by civil society and anchored in the power of government as a force for the public good. Business and markets play a vital role in taking these advances forward, but they are followers, not leaders; they are "instruments in the orchestra" but not "conductors."

"We literally go down the chart of the greatest inequities and give where we can effect the greatest change," says Melinda Gates of the Gates Foundation,⁷⁵ except that some of the greatest inequities are caused by the nature of our economic system and the inability of politics to change it. Global poverty, inequality, and violence can certainly be addressed, but doing so requires the empowerment of those closest to the problems and the transformation of the systems, structures, values, and relationships that prevent most of the world's population from participating equally in the fruits of global progress. The long-term gains from changes like these will be much greater than those that flow from improvements in the delivery of better goods and services. After all, only the most visionary of the philanthrocapitalists have much incentive to transform a system from which they have benefited hugely.

So where are the examples of organizations funded through philanthropy that do really make a difference? There are thousands of them scattered widely across the world through civil society, but very few receive support from the philanthrocapitalists. Established after the Los Angeles riots in 1992, Strategic Concepts in Organizing & Policy Education, or SCOPE, addresses the "root causes of poverty" by nurturing new "social movements and winning systemic change from the bottom up."⁷⁶ It has involved almost 100,000 low-income residents in community action to secure a \$10 million workforce development program with the Dreamworks Entertainment Corporation, developed a regional health-care program funded by local government; initiated the Los Angeles Metropolitan Alliance to link low-income neighborhoods with each other across the city and upward to regional solutions; and launched the California State Alliance, which links 20 similar groups

throughout the state to develop new ideas on environmental policy, government responsibility, and reforms in taxation and public spending.

In 1997, Make the Road by Walking opened its doors in the Bushwick section of Brooklyn to build capacity among immigrant welfare recipients, but soon expanded its focus to combat the systemic economic and political marginalization of residents throughout New York. Since then it has collected through legal advocacy more than \$1.3 million in unpaid wages and benefits for low-income families and secured public funding for a student success center to meet the needs of immigrants.⁷⁷ Both organizations are part of the Pushback Network, a national collaboration of community groups in six states that is developing a coordinated strategy to change policy and power relations in favor of those they serve from the grass roots up.

Outside the United States there are lots of similar examples. Take SPARC in Mumbai, India, which has been working with slum-dwellers since 1984 to build their capacity to fight for their rights and negotiate successfully with local government and banks.⁷⁸ SPARC—whose motto is “breaking rules, changing norms, and creating innovation”—sees inequality as a “political condition,” the result of a “deep asymmetry of power between different classes,” not simply “a resource gap.”⁷⁹ SPARC has secured large-scale improvements in living conditions (including more than 5,500 new houses, security of tenure for many more squatters, and a “zero-open defecation campaign”), but just as important, it has helped community groups to forge strong links with millions of slum dwellers elsewhere in India and across the world through Shack Dwellers International, or SDI, a global movement that has secured a place for the urban poor at the negotiating table when policies on housing are being developed by the World Bank and other powerful donors.

Groups like these do deliver tangible outputs like jobs, health care and houses, but more important they change the social and political dynamics of places in ways that enable whole communities to share in the fruits of innovation and success. Key to these successes has been the determination to change power relations and the ownership of assets and put poor and other marginalized people firmly in the driver’s seat, and that’s no accident. This is why a particular form of civil society is vital for social transformation and why the world needs more civil society influence on business, not the other way around. It needs more cooperation, not competition; more collective action, not individualism; and a greater willingness to work together to change the fundamental structures that keep most people poor so that all of us can live more fulfilling lives.

Venture philanthropists and social entrepreneurs are pragmatic people, and they could argue that action is vital in the here and now while we move slowly along the path to social transformation. Pragmatism is a feature of civil society too, and neither wants to make “the best the enemy of the good.” Small victories are still victories, and a vaccine against HIV/AIDS would be a very big victory indeed. “I don’t believe there is a for-profit answer to everything,” says philanthrocapitalist Pierre Omidyar, “but if for-profit capital can do more good than it does today, foundations can concentrate their resources where they are most needed,” a welcome dose of common sense in a conversation dominated by hype.⁸⁰ Indeed, no one is forcing Omidyar, Gates, Skoll, and the rest to give billions of dollars away, and they could keep it for themselves.

Organizing a Better Conversation

What we need is a good, old-fashioned, full-throated public debate to sort out the claims of both philanthropists and their critics, and to inform the huge expansion of philanthropy that is projected over the next 40 years. So here’s the \$55 trillion⁸¹ question: will we use these vast resources to pursue social transformation or just fritter them away in spending on the symptoms?

The stakes are very high, so why not organize a series of dialogues between philanthropists and their critics on the condition that they shed the mock civility that turns honest conversation into jello? Deep-rooted differences about capitalism and social change are unlikely to go away, so let’s have more honesty and

dissent before consensus so that it might actually be meaningful when it arrives.

Effective philanthropists do learn from their experience and the conversations they have with others. Melinda Gates, for example, describes this process well: “Why do something about vaccines but nothing about clean water? Why work on tuberculosis but not on agricultural productivity? Why deliver mosquito nets, but not financial services?”⁸² Of course, there’s another set of questions waiting to be answered at a much deeper level: Why work on agricultural productivity but not on rights to land? Why work on financial services but not on changing the economic system? But these are challenges that face all foundations, and they are best addressed together, since all of us have much to learn from others. Rather than assuming that business can fix philanthropy, why not put all the questions on the table and allow all sides to have their assumptions tested? This kind of conversation might lead us far beyond the limitations of the current debate and closer to that ultimate prize of an economic system that can sustain material progress with far fewer social, personal, and environmental costs.

Only 11 percent of the money that Americans give to charity addresses public and social benefit, so this is far from an academic issue.⁸³ Philanthropy is based on the understanding that tax breaks are given in return for a commitment to use the same resources as or more effectively than government, so it is not unreasonable to ask whether tax-exempt activities are living up to their side of this agreement. However, humility and self-criticism don’t come naturally to many foundation leaders or social entrepreneurs, so it will take more than a conversation to encourage them to live up to their social and political obligations. A voluntary commitment to principles of mutual learning, transparency, democracy, modesty, devolution, and structural and systemic change might garner publicity for a vigorous and revealing discussion of the uses and limitations of venture philanthropy and social enterprise.

Could it be that civil society can achieve more impact on capitalism by strengthening its distinctive roles and values than by blending them with business? Are civil society and business just different ways of answering similar questions about production and delivery, or are they asking different questions about society altogether? That’s the beauty of a different kind of conversation in which there is sufficient room for all these positions to be listened to and heard. What we must avoid is a cocktail in which civil-society influence is significantly diminished.

Citizens’ groups have nothing to be ashamed of in not being a business and everything to gain by reasserting their difference and their diversity. At its best, voluntary action releases incalculable social energy: the sheer joy of collective action for the public good, free—as far as is humanly possible—of all commercial considerations and self-interest. That is surely something to preserve and extend as we edge closer to a world that is thoroughly and comprehensively transformed.

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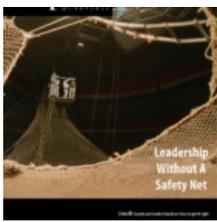
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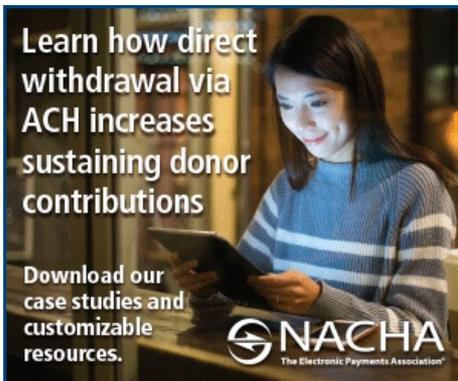
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In “Just Another Emperor: The Myths and Realities of Philanthrocapitalism”, he challenged our excitement about the potential of a new generation of businesslike philanthropists, questioning whether they really have any special skills to offer and suggesting that they are bad for civil society. There’s no disagreement between us on the need for the philanthrocapitalists to be transparent in what they do and honest about their mistakes. We think that while Mike’s reaction (like others in the philanthropy establishment who want to dismiss these new donors) is perhaps understandable it is also mis

Just Another Emperor? The Myths and Realities of Philanthrocapitalism by Michael Edwards. First published and distributed 2008 by De- mos: A Network for Ideas & Action and The Young Foundation. First printing, 2008. Just Another Emperor? 11.

1 Introduction the rise of philanthrocapitalism. It is six o’clock on a Saturday afternoon, and the Swan Lake Fire Department Ladies Auxiliary are cleaning up af-ter their latest community rummage sale. Not much money changed hands today, but plenty of warm clothes did, much needed with the onset of winter in this upstate New York town.

"Just Another Emperor?" examines the evidence for applying business models in the social sector, and makes a series of recommendations on how they could best contribute to lasting social change ...more. Get A Copy. Amazon. Argues that philanthrocapitalism can never take the place of traditional charity work. Makes some important points, but can't both coexist? The Myths and Realities of Philanthrocapitalism (Demos/Young Foundation, March 2008) - that challenges the increasing influence of business thinking in philanthropy? Michael Edwards's essay is based on a talk he delivered at the launch of his new book - Just Another Emperor? The Myths and Realities of Philanthrocapitalism (Demos/Young Foundation, March 2008) - at the Young Foundation on 10 March 2008. The book is co-published by This essay and Just Another Emperor provoked a lively and lengthy debate on openDemocracy and elsewhere, to which Michael Edwards replied in a further article: "Philanthrocapitalism: old myths, new realities" (14 November 2008). Expose the "dark money" bankrolling our politics. a feature of philanthrocapitalism is reducing the autonomy and flexibility of civil-society groups, which are forced to spend and report on each donation exactly as prescribed. As a result, the U.S. nonprofit sector may be "getting larger but weaker," says Pablo Eisenberg, a staunch critic of what he calls the "corporatization of nonprofit groups." Philanthrocapitalism gives this theory an extra twist by adding more explicit social and environmental considerations into the workings of the market. To what extent, however, can markets change, correct, or transform themselves? This question is especially relevant because philanthrocapitalism brings concentrated power and assumes that the provider knows what's best for the recipient.