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Matthew Bishop

Philanthrocapitalism: Solving Public Problems through Private Means

ONE OF THE STRANGEST INTERVIEWS I EVER DID WAS WITH TED Turner, founder of CNN, sailor, and philanthropist. We spoke in his apartment in the Waldorf Hotel about the $1 billion he had promised a decade before in 1997 to the United Nations—and eventually, sort of, given—a promise made apparently on a whim because he needed something headline-grabbing for a speech he was giving.

I was perched on a chaise longue, his girlfriend to my right, with some PR women looking on. Turner was to the left of me, rocking back and forth on a chair. He was easily distracted and becoming quite hard of hearing.

I asked him, "What impact has your $1 billion gift had?" There was a long silence as he peered at me intently. Eventually he replied with a question of his own. "Do you know, if you wore a hairpiece, you would look ten years younger?"

The girlfriend nearly fell of the chaise, but Turner continued. "If I had my way, I would ban men from holding any public office for the next 100 years," before eventually returning to my question, saying, "Well, you want to think you made a positive difference."

I will not debate here whether the UN is in better shape now than it was before Turner got out his checkbook. What is clear, though, is that his gift has made a difference, of sorts: there is now far more private sector involvement in the UN. When Turner tried to give money to the UN he was told it was illegal. This led to the creation of the UN

Office for Partnerships, which has never been busier, striking up deals with philanthropists, not-for-profits, and big business.

But the biggest difference Turner's gift made was that it helped to kick-start some highly public big giving by the wealthy of America and, increasingly, the world. This became a leading part of a broader movement I christened "philanthrocapitalism" in *The Economist* in February 2006, and then wrote about with Michael Green in our book, *Philanthrocapitalism: How Giving Can Save the World* (2008). Philanthrocapitalism encompasses not just the application of modern business techniques to giving but also the effort by a new generation of entrepreneurial philanthropists and business leaders to drive social and environmental progress by changing how business and government operate.

In his UN speech, Turner challenged his fellow superrich to become serious philanthropists, before naming names of those tycoons he thought were "awash in money they don't know what to do with" who should start giving it away, which included one Bill Gates.

This movement arguably reached critical mass in June 2006, at the New York Public Library. That was when Warren Buffett called Bill Gates onto the stage, handed him an IOU for most of his own fortune (then estimated to be worth around $30 billion), and asked him to give it away through the Bill and Melinda Gates Foundation.

This was a unique moment in human history: the two most successful businessmen of their day standing side by side promising to donate most of their vast wealth to fight poverty and disease among the poorest people on the planet and to improve America's failing public school system.

In its visibility and scale, this took the American tradition of mega-philanthropy, which had flourished in the early decades of the twentieth century, to a new level, from which it has continued to rise with the launch by Buffett and Gates in 2010 of the Giving Pledge. As of early 2013, over 100 American billionaires and more than a dozen foreign billionaires have taken the pledge, publicly promising to give away at least half of their fortunes by the time they die. According to the annual list compiled by *Forbes* in 2012, their global total of billionaires had risen to 1,225, so maybe there are many more pledges to come.

The list of Giving Pledgers even includes twenty-somethings, most notably Mark Zuckerberg, the 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 philanthrocapitalists, which among other things will give them plenty of time to learn to do philanthropy well.

The philanthrocapitalism movement is also increasingly going global, as the non-American signatories of the Giving Pledge highlight. The new wealthy of other developed economies and, increasingly, the emerging economies are embracing philanthropy with growing seriousness, typically tailored to local circumstances and cultural traditions. There are influential philanthrocapitalists in countries such as India, China, Mexico, Britain, and even Sweden, the traditional home of statism.

Africa is the latest continent to produce homegrown philanthrocapitalists, led by cell phone entrepreneur Mo Ibrahim. Tellingly, recognizing that the weaknesses of the public sector are often the greatest impediment to solving public problems, he established a huge prize for recently retired heads of government in Africa to encourage corruption-free leadership. What a powerful message has been sent by awarding the prize in only three of the six times it has been up for grabs, with no candidate meeting the criteria the other three times.

This rise of philanthropy around the world is entirely unsurprising. 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 heavily influenced by the business thinking that drove the wealth creation.

By our count, we are in the early years of the fifth golden age of philanthropy since modern capitalism was born out of medieval

Europe. The first three were in Europe and the fourth in America, the Carnegie-Rockefeller era of a century ago. This current boom may prove to be the first truly global golden age of philanthropy.

There is a long spiritual tradition, spanning many faiths, that sanctifies giving in secret, whose purpose typically includes the excellent one of discouraging excessive pride and self-aggrandizement by the giver. Even so, the public declaration required to sign the Giving Pledge should be applauded. Among other things, it will help ensure transparency and accountability in philanthropy, which may be an essential ingredient of a new twenty-first century "social contract" that will allow private means to fulfill their potential to help to solve public problems.

AFTER THE CRISIS

Philanthrocapitalism, the book, was published days after Lehman Brothers, one of the world's largest and seemingly invincible financial institutions, crashed to earth in 2008, triggering a global economic crisis unseen in more than half a century. Our optimistic vision for the role that private actors could play in solving some of the world's biggest problems clashed with the zeitgeist of those dark, frightening times. "Talk about unfortunate timing," began a review of the book in *Slate* magazine, adding, "this gilded age has come to an abrupt and hard stop, and with it, perhaps, has come a tempering of irrational exuberance about the potential of outsized philanthropists to be, in Bishop's words, 'superheroes for solving some of society's problems.'" Philanthrocapitalism "may not survive the crisis," wrote Geoff Mulgan, a British social sector guru.

I took a different view. "Overall, the wealthy are likely to survive the crisis in far better shape than everyone else," I predicted in the *Daily Telegraph* in November 2008. In the *New York Times* special section on giving in November 2008, I argued that, with government spending under increasing pressure following the crash, "the need for philanthrocapitalism will be greater than ever." Moreover, I added, "it will not escape the attention of today's leading philanthrocapitalists that there may never be a better opportunity for them to leverage government spending in directions they want." So it has proved.

The evidence is not just the lengthening list of signatories of the Giving Pledge. A growing number of corporations are embracing the creed of "doing well by doing good," and a new field of "impact investing" is starting to attract significant money. Governments are increasingly keen to partner with these private sector problem solvers and even let them take the lead. This should encourage optimism about the chances of finding effective, sustainable solutions to our most pressing public problems.

The defining feature of philanthrocapitalism is not, as its critics suggest, a determination to replace traditional grant-making or the democratic processes of civil society with so-called market-based solutions, but rather its laser-like focus on achieving "impact." From Bill Gates on down the wealth ladder, those philanthropists who are driving the evolution of philanthrocapitalism are doing so not out of some simplistic faith in a capitalistic ideology but in the pragmatic belief that to do so is more likely to help solve the world's biggest problems than relying solely on traditional grant making.

FREEDOM TO TAKE RISK

Philanthropy can play a crucial role in tackling the biggest problems facing the world because it is "free" capital—free not just because it tends not to require any economic payback for its use but because it is able to do pretty much as it likes, with very few constraints. That means it can take risks, back unpopular causes, challenge conventional wisdom, be contrarian—things that I believe society needs now more than ever.

My current favorite example of this free spirit is Peter Thiel, the German libertarian cofounder of PayPal, whose philanthropy has supported causes ranging from encouraging kids with bright ideas to quit college and start a company to sea-stedding (building floating communities that can experiment with different political systems) and trying to reverse biological aging.

In our book, Green and I argue that giving by the rich has the potential to have more impact than giving by ordinary people because the rich can be "hyperagents." As we write,

> they do not face elections every few years, like politicians, or suffer the tyranny of shareholder demands for ever-increasing quarterly profits, like CEOs of most public companies. Nor do they have to devote vast amounts of time and resources to raising money, like most heads of NGOs. 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—above all, to try something new (2006, 12).

Let me make three comments about hyperagency. First, new social media, through low cost connectivity, the generation of big data, and the creation of ubiquitous feedback loops, is dramatically increasing the ability of ordinary givers to practice collective or crowd hyperagency. I saw this at first hand in 2012 as an adviser to the #givingtuesday 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. 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 giving is intended to benefit but which so often it doesn't.

Second, public companies also have the potential for philanthrocapitalistic hyperagency, but are often held back by market pressures to maximize short-term profits. Many bosses believe that to invest in what Michael Porter calls creating "shared value" would be a win-win for society and their shareholders over the long-run, but they are unable to pursue it to the degree that they would like. I am closely watching Unilever, which is trying to defy this conventional wisdom by setting out to double its sales by 2020 while halving its environmental footprint.

I am struck too by recent developments in private equity, which is less fixated on short-term profits. As an illustration of what might happen if public companies were encouraged to take a longer-term view, look no further than the private equity firm of Kohlberg Kravis Roberts (KKR). You will remember KKR back in the 1980s when they were known as the Barbarians at the Gate. You may not have heard of their 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 are not taken up. Over the long term, KKR believes 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 it had avoided 810,000 metric tons of greenhouse gas emissions and consumed 2.2 million tons of waste, and 300 million liters less of water.

Institutional shareholders need to become more engaged as long-term owners of public companies—actively involved in ensuring good corporate governance—if we are to reduce bad short-term pressures on companies and allow them to pursue long-term goals in their enlightened self-interest.

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 Bill Gates responding to my asking if his foundation, which was giving away an unprecedented $3 billion a year at the time, was becoming a big all-powerful monster like, er, Microsoft, with the answer, "We are a tiny, tiny organization."

By this he meant that all his money and connections—and the power to convene the right people is one way the rich exercise hyperagency—would not be enough to move the needle in tackling the world's biggest problems unless he could convince others, many others, to partner with him in pursuing his goals. Without partners, including ultimately a significant part of the public through their political consent, it would not be possible for Gates to achieve his goals. That is why one of the favorite words of philanthrocapitalists is "leverage"—as they seek to maximize the bang for their buck by leveraging the resources of others, in the nonprofit sector, in business, and in government.

Philanthrocapitalists have developed a new vocabulary to describe their approach to solving public problems, which borrows enthusiastically from the business lexicon. They call themselves "social investors" or "venture philanthropists" and try to make donations that are "high performance" and "strategic." But above all, they love to leverage.

To make a real difference, philanthropists have to find ways to use their money that have an outsized impact, typically by using donations to change how others spend their money.

This kind of leverage—using a relatively small donation to enlist others in a cause—is very different from the Wall Street kind, which, by multiplying the size of traders' bets, sometimes has blown extra air into financial bubbles. Philanthropic leverage has become more important in tough economic times as social demands increase and government budgets grew tighter.

The Gates Foundation, for example, has tried to "leverage" the research and development budgets of the major pharmaceutical companies by giving incentives to encourage them to spend more of their research budgets on discovering, say, a vaccine for malaria (which kills millions) rather than a cure for baldness (which hurts only vanity). Another leveraging strategy has been to encourage research that combines a variety of inexpensive drugs to cure a different disease.

The X Prize Foundation, with its lavish awards for achievements like privately financed manned space flight or speedy sequencing of the genome, can convince competitors to spend far more collectively than the amount they stand to win if they succeed.

And then there is the most tempting pool of money—government spending, much of which is already directed at solving social problems. Leveraging those budgets has become a core strategy for many of today's leading philanthrocapitalists, including Bill Gates.

New York Mayor Michael Bloomberg, for example, uses philanthropists to finance pilot projects that he thinks are too risky to ask taxpayers to pay for initially. If they are proved successful, however, this philanthropic investment can be leveraged with little controversy or risk to taxpayers by making the expansion of the project part of the city budget. A similar model was adopted by Cory Booker, the mayor of Newark, who employed a philanthropy coordinator in City Hall.

A growing number of today's leading philanthropists no longer make a sharp distinction between making money and giving it away. For example, eBay founder Pierre Omidyar has set up his philanthropic organization, Omidyar Network, not as a traditional foundation but as an entity that can apply the right kind of capital to the problem in hand—sometimes grants, sometimes for-profit investments. He has already had some success in encouraging for-profit microfinance as a way to extend financial access to many more poor people than could be reached by relying on nonprofit microfinance alone.

A few years back, Omidyar had a dispute with Muhammad Yunus, the Nobel Peace Prize–winning founder of Grameen Bank, over whether microfinance should be run for profit. Omidyar showed that the profit motive is the fastest way to scale up this valuable service to the poor, though it is not without dangers. Now the Omidyar Network, which does both traditional grants and equity investing, is backing organizations ranging from Hernando de Soto's Institute for Liberty and Democracy to Bridge International Academies, a company that delivers high-quality education at the base of the pyramid in Kenya.

Others, including the Gates Foundation, are also entering the growing "social impact investment" space—which, rather than harming the process of wealth creation, may actually lead to the discovery of better ways of wealth creation that will make capitalism more successful than ever. According to research published by JP Morgan in 2010, there is now a potential $1 trillion pool of capital looking for what the bank calls "impact investments" that offer investors a combination of both financial and social or environmental return.

Perhaps the most interesting new impact investing product is the "social impact bond," or as it is known in the United States, 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 a nonprofit with an idea that can reduce government spending over the long term. In a pioneering social impact bond issue in New York, this was the Adolescent Behavioral Learning Experience (ABLE) program for teens jailed on Rikers Island, which aims to reduce recidivism, and thus the cost of jailing them. If the program is successful, investors are paid a good profit by the government out of the savings from fewer jailings. On the other hand, if things go wrong the private sector takes the hit, not government. This social impact bond was backed by Goldman Sachs and the Bloomberg Foundation, the charitable arm of a billionaire mayor who, I suspect, views his entire political career as an act of philanthropy.

RETHINKING CAPITALISM, TOO

Such new approaches are, increasingly, linked to the exploration of the new frontiers of capitalism. This is an argument that Green and I expand on in our 2010 book, *The Road From Ruin*: that before the crisis capitalism worshipped short-term success, measured by quarterly profits and daily increases in stock prices; the new capitalism that needs to emerge from the ruins of the old is one that thinks about long-term success. Greed, we have learned, is not good capitalism, since it drove so many once proud financial services companies into bankruptcy.

Philanthrocapitalism is part of a capitalism that recognizes that it must be socially and environmentally sustainable. Corporate history is littered with companies that went for the fast buck and cut ethical corners—think of Nestlé selling baby-milk formula and Nike's once cruel supply chains—that cost their shareholders dearly. (Both firms changed, having learned the hard way that such social failures were bad for long-term shareholder value.) More pressure on executives to take off the quarterly profits blinders and look at the wider picture would surely be a positive development in capitalism. It is clear that already corporate leaders have a growing opportunity to work for their enlightened self-interest by thinking about ways to operate that create wider value to society, which, in turn, helps their business thrive in the long term—such as taking proactive steps to reduce greenhouse gas emissions as a contribution to averting climate change disaster. For a company like Pepsico, for example, under visionary CEO Indra Nooyi, that meant facing up to the fact that it cannot continue to be a cause of the obesity epidemic or drain water supplies in developing countries. For institutional investors, pension funds in particular, it shows that they need to be real stewards of the capital that they are investing, not just passive index-trackers.

Such new thinking means that there is real potential for impact investing and other new approaches to philanthropy to become part of mainstream capitalism, as the boundaries between the nonprofit and for-profit worlds collapse. This is not necessarily a rejection of Milton Friedman's view that the only social responsibility of business is to maximize profits but rather a growing realization that a more constructive attitude to solving society's problems may increase their profits over the long term. It is a revolution in what we value that was first heralded as "blended value" by Jed Emerson nearly a decade ago and which has now been endorsed as "shared value" by Michael Porter.

The goal of leveraging government is increasingly widespread among philanthrocapitalists from Gates down, which in turn is giving rise to growing controversy. Philanthrocapitalists cover most of the political waterfront, though compared with the population at large they tend to be far more procapitalist.

By giving to certain causes rather than others, philanthropists are pushing their vision of what makes a good society. California billionaire Eli Broad, for example, gives substantial amounts to the arts, a decision he explained to us on the grounds that "to have a productive, inventive, creative populace, the arts have a role to play." For some, this is a matter for the donor alone. Others, however, would argue that, given the tax subsidy to giving, the public should have more say on the causes philanthropists give to (this has been a lively debate in Britain, where elite private schools, such as Eton College, where Princes William and Harry and Prime Minister David Cameron were all educated, have been pressured by the charity regulator to show that they are helping poor kids as well as those born in with silver spoons in their mouths).

One might also grumble that giving crosses the line into politics when it directly distorts public policy choices over how taxpayers' money is spent. Take Andrew Carnegie's massive library-building program across America and other countries more than a century ago: if local governments were not willing to commit public money to pay for the upkeep of the steel baron's gift, they did not get a library. Or look at the giving by the Bill and Melinda Gates Foundation to tackle diseases of the developing world. This generosity has been used, for example, to lever matching commitments from governments to new aid agencies like the Global Fund for AIDS, Tuberculosis and Malaria, which critics could argue has distorted international priorities in financing for development.

A more fundamental concern may be that some charitable causes are objectionable in their own right—at least to those who disagree with them. This type of criticism gets even more intense when philanthropists stray from metaphysics into politically sensitive areas. Conservatives, for example, love to rail at George Soros's donations to what he calls "open societies," labeling him "Soros the beastman" and even "Dr. Evil." Liberals, for their part, less colorfully, bridle at the influence of the Koch Brothers.

This is all good knockabout stuff, as one group accuses the other of using rich donors' cash to win the upper hand in the public debate. If anything, the volume of accusations and counter-accusations shows how philanthropy adds to the richness of debate rather than favoring one side or the other. Yet when the superrich cross the line into electoral politics, this raises some more profound questions.

Getting stuck into politics for real may be the most direct route for a philanthropist to achieve their goals. That's what the billionaire Mayor Bloomberg thinks; his use of his own money to get elected mayor of New York, one could argue, is the clearest example yet of philanthrocapitalistic leverage.

As Bloomberg says, his charitable foundation is giving millions of dollars away to try to eradicate smoking worldwide, but that money will struggle to match the impact of the ban on smoking in public he legislated in New York. As an ex-smoker he has given generously to the anti-smoking cause but rates the influence of the ban on smoking in public places that he introduced in New York as having much more impact. As a self-funded politician he also thinks he can govern without the dependence on funders that hamstrings other politicians.

If Bloomberg is the acceptable face of the billionaire politician, his fellow media tycoon and scandal-ridden former prime minister of Italy, Silvio Berlusconi, is surely the unacceptable face, highlighting that there are dangers when the superrich start to dabble in politics. The lesson here, however, seems to be that the strength of the rules and institutions preventing abuse of the system are crucial.

To argue that philanthropy and politics are separate spheres that should never touch is simply unreal. In a multitude of ways philanthropists are contributing to the political process, directly and indirectly. In America, the rules and boundaries have been debated constantly for more than a century because of worries about the influence of the rich on politics. Whether it is Broad, Gates, Soros, Bloomberg, or the Koch Brothers, there are precedents to guide whether these philanthrocapitalists have crossed the line.

Rather than posing a threat to democracy, it is possible that within the right framework, the activism of the wealthy in politics can strengthen pluralism, or at least not undermine it, given the wide range of political views to which the rich subscribe. While both sides have their hyperagents, their money should not do too much damage to democracy.

Yet I do worry that some of these titans today 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 degree, Bill Clinton and Tony Blair.

Here William E. Simon 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 Institution, and the Manhattan Institute, and also supported the work of scholars like Allan Bloom, Samuel Huntington, and Irving Kristol. Liberal foundations have long sought, with varying degrees of success, to replicate on the left this role of intellectual catalysts.

In the run up to the 2012 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. Ideally, donors will realize there are bigger rewards in winning an honestly fought long-term battle of ideas.

Yet even on policy matters where philanthrocapitalists tend to broadly agree, 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 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 devotes a chapter to this branch of philanthrocapitalism, which she called "The Billionaire Boys' Club." In this, 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," who she describes as "bastions of unaccountable power."

As the Walton Foundation is a big donor to charter schools, she sees common purpose in the anti-union policies of their family firm, Wal-Mart, and their philanthropy's "ideological commitment to the principle of consumer choice and to an unfettered market" in education—confusing, as she does so, private management of schools, which is what charter schools are about, with privatization and deregulation, which they are not.

I believe that, though it is far from perfect, the charter school movement is having a clear positive impact on America's education system, and its best practices need to be scaled up as fast as possible. I also think that efforts by the likes of the Bill and Melinda Gates Foundation and Broad Foundation have helped make a relative success of the Obama administration's Race to the Top program, and helped move 46 states to agree a common core curriculum, at last.

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 are highly unlikely to achieve the fundamental change they want. In the building of broad partnerships for change—what I like to call "coalitions of the positive" or "philanthrocapitalist posses"— comes the democratic accountability.

That said, I believe 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 their failures. The Giving Pledge is but a start. Compared to business, the world of giving is opaque, and what information is forthcoming tends to arrive far too slowly. Philanthropists should lead the way with voluntary transparency.

I would also like a proper debate about the tax deductibility of charitable donations and whether these really benefit society. In a recent article for *The Economist*, I described evidence that calls into question the social value of much charity, and I argued for a public benefit test to be applied to qualify for a deduction.

A NEW SOCIAL CONTRACT

We are at a crucial stage in the definition of a new global social contract for the twenty-first century that will define for a generation the relationship not just between the rich and the rest—as the Occupy movement put it, the 1 percent and the 99 percent—but also between capitalism and society. The Giving Pledge has the potential to be a key part of the answer to the question of how the super wealthy should relate to society as a whole. It remains to be seen how a commitment to philanthropy will sit alongside obligations for the rich to contribute through the taxation system.

One factor likely to determine public opinion of philanthropy, especially as its tax-privileged status makes it a kind of outsourced form of public spending, is not how much is given but how well it is given. The focus on impact, the hallmark of the philanthrocapitalist approach, is a driver of the quest for new tools for effective giving.

One of the great uncertainties is whether the new generation of philanthrocapitalists will have the commitment to see the job through—especially as this is, at least in philanthropy if not business, a voluntary endeavor that might be easily discouraged if the going gets tough.

Another great uncertainty is whether they have the necessary competence. Succeeding in business is one thing, especially given its tolerance for command and control and unorthodox personalities, provided they deliver results. Partnering across sectors is another matter, requiring high emotional intelligence. And the problems are tougher. As Warren Buffett famously put it, "in business you go after the low-hanging fruit. Giving money away effectively is far harder."

A particularly tough challenge will be to develop an integrated "capital curve" for funding good ideas for social change, equivalent to the capital curve in business that funds a start-up from seed capital to the public stock markets. As Green and I have argued, in the world of social innovation there are large gaps on the capital curve, especially when it comes to scaling up a nonprofit once it approaches medium size, and in managing the transition from nonprofit to for-profit.

There will need to be a candor about failure that is rare in traditional philanthropy. "If you try a bunch of things, you often learn more from failure than from success," mused technology billionaire Elon Musk in an interview for *The Economist* after meeting with other Giving Pledge signatories in May 2012. His commercial ventures in space exploration, solar energy, and electric cars were "not picked because I thought they were the highest return on investment," he admits. Rather, he thinks that sustainable long term success comes from using for-profit investments to solve big problems facing humanity.

Musk epitomizes what philanthrocapitalism is all about. He also teaches a crucial lesson about the meaning of the success: risk-taking means embracing and acknowledging failure, as a feedback loop for learning, as well as success.

The philanthropy world struggles to talk about failure—not least because it tends to inspire negative headlines and criticism from those who are skeptical about the rich and their giving. Indeed, though the Giving Pledgers spent much of that meeting talking about failure, it was all done in private. This needs to change. Ironically, one of Bill Gates's biggest contributions to philanthropy may be that his wealth and prominence means that he has both raised the profile of giving and drawn scrutiny in a way that no one else could. Gates has also shown a welcome desire to disagree with, as well as learn from, his critics.

Candor about failure will be needed not least because philanthrocapitalism ought to be risky. Indeed, there is a danger that philanthrocapitalists will be too risk averse. Take impact investing, for example. Is JP Morgan's estimate of a potential $1 trillion pool of capital looking for "impact investments" actually realistic? Maybe. But currently, for all the talk, only a tiny fraction of that sum is impact invested, apparently because of the risk aversion of those controlling the money.

On the other hand, insufficient thought was given to the risks when philanthrocapitalists encouraged the shift from charitable to for-profit microcredit in India. They were right about the logic of the case for doing so: there is a business model that can attract far more money to lend to the poor than would ever be able to be reaped from charity. Yet in the rush to develop new models insufficient thought was given, in some cases at least, to whether the microcredit industry had the capacity to grow fast (such as in terms of the available supply of competent loan officers) or whether customers properly understood the financial products they were being sold. Thus, when Indian farmers in Uttar Pradesh committed suicide in 2010, blaming excessive debt borrowed from microcredit lenders, the newly public for-profit SKS Microfinance could not escape a share of the blame.

To its critics, this was evidence of the folly of the for-profit new approach to philanthropy. In our view, it was evidence of sloppy thinking, a deadly wake-up call and lesson to learned if the potential to harness the profit motive to serve the "bottom of the pyramid" in other sectors, from water supply to education, is to be fulfilled.

It is not just the level of competence and commitment of the philanthrocapitalists that remains unknown. The same applies to their potential partners. Governments have started to experiment with new approaches, from Barack Obama's White House Office for Social Innovation to David Cameron's Big Society Bank and pioneering Social Impact Bond. Yet the scale of these initiatives to date is tiny. The danger is that the risk aversion of those in government, with reelection on their minds, will far exceed that of philanthropists. Businesses, too, may nod to Michael Porter's shared value but limit their actions to what can be funded from the corporate social responsibility budget rather than put the new approach at the heart of their core business strategy. As for nonprofits, many have viewed with suspicion the new breed of philanthrocapitalists with their emphasis on efficiency and results, and they may be tempted to resist them rather than partner.

In sum, while philanthrocapitalism has the potential to make society as a whole a major winner, while creating only those losers who deserve to lose, that happy result is far from inevitable. It will depend, not least, on the ability of all our institutions to evolve and adapt to make the most of the opportunity presented by the new multisectoral partnership approach to solving the world's biggest problems.

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