

# The Philanthropic State: Market–State Hybrids in the Philanthrocapitalist Turn

by Linsey McGoeey

The net worth of the world's richest individuals is growing larger even as economies are shrinking, but governments remain one of the most powerful—if not *the* most powerful—actors in the philanthrocapitalist turn. Indeed, state support is vital to the rise of “new” philanthropic movements. Here, the author suggests that recent work in economics on the “risk–reward nexus” can help development scholars to better theorize the relationship between private and state actors in philanthropy.

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**O**VER THE PAST DECADE, A NEW FORM of philanthropy has emerged, termed “philanthrocapitalism.” Champions of philanthrocapitalism suggest that private giving can fill the void left by diminished government spending on social and development programs. Critics suggest that philanthropy is no substitute for strong governmental support for social welfare. Both perspectives perpetuate a dichotomy between the public and the private, implying that philanthrocapitalism operates in a vacuum largely divorced from governmental interventions. In reality, rather than a binary approach, it's useful to understand the ways in which the philanthrocapitalist turn has compelled increased financial support from governments toward the private sector. Drawing on three cases—direct philanthropic and governmental grants to corporate entities; impact investing; and advanced market commitments (AMCs) in drug

development—I illustrate the ways in which governments remain one of the most powerful, if not *the* most powerful, philanthropic actors in the philanthrocapitalist turn.

The article makes three main points. First, drawing parallels between new organizations such as the Gates Foundation and earlier foundations such as Rockefeller and Ford, I suggest that philanthrocapitalism is simultaneously far *less* novel and *more* novel than proponents suggest. Second, I suggest that a neglected actor within discussions of philanthrocapitalism is the state itself. Just as legislative change and governmental subsidies were crucial to the nineteenth- and twentieth-century development of global economic markets, state support is vital to the rise of “new” philanthropic movements; governments are, somewhat ironically, instrumental to the success of philanthropic movements strengthened by proclaiming the

ineptitude and waning influence of government policies. Third, I suggest that recent work by economists William Lazonick and Mariana Mazzucato on what they term the “risk–reward nexus” can help development scholars better theorize the relationship between private and state actors in development projects.<sup>1</sup> The article concludes with a brief discussion of the paradoxes at root in the image of the lone philanthrocapitalist “entrepreneur” reshaping development policies.

## The New Empire of Giving

A key question to ask of the “new” philanthrocapitalism movement is, “Just how new is it?” The term was first coined in 2006 in an article in the *Economist*. Later on, Matthew Bishop, an editor at the *Economist*, and Michael Green, a former policy maker at the United Kingdom's Department for International Development (DFID), elaborated on

the concept in their 2008 book, *Philanthrocapitalism: How the Rich Can Save the World*.<sup>2</sup> Compelling studies of the phenomenon have been offered by leading thinkers such as nonprofit specialist Michael Edwards and legal theorist Garry Jenkins, who have explored the movement's emphasis on using performance metrics, innovative financing models, and increased stewardship of grantee decision making to purportedly make the nonprofit sector more efficient and cost effective.

There have also been sober efforts to query the assumption of novelty among the new philanthrocapitalists. Stanley Katz, for example, has suggested that the objective to render philanthropy more cost effective and results oriented has a far longer historical heritage than most proponents of philanthrocapitalism appear to realize.<sup>3</sup> Both John D. Rockefeller and Andrew Carnegie aimed, as the sociologist Nicolas Guilhot writes, "to apply the rational methods of business to the administration of charitable deeds, which they considered to be outdated and deficient."<sup>4</sup> What is new about the new philanthropy is the extremely fast clip at which new philanthropic foundations are growing. As outlets such as *Forbes* have reported each year since the onset of the 2008 financial crisis, the net worth of the world's richest individuals is growing larger even as average wages stagnate. Wealth concentration has reached unprecedented levels. Worldwide, the number of billionaires more than tripled from 2000 to 2010, growing to 1,011 from 306, and many of them are steering their fortunes toward new philanthropic entities. In the early 2000s, as the Foundation Center reports, the number of active foundations was about fifty thousand. It now stands at over eighty-nine thousand. An estimated five thousand more philanthropic foundations are set up each year.

## The State–Corporate Nexus

The explosion of new philanthropic trusts comes at a time when governments are facing public demand to reduce overseas development assistance, something that already comprises only a minuscule portion of most states' gross national income (GNI). At the UN General Assembly in 1970, donor governments pledged to spend 0.7 percent of GNI on official development assistance. Since then, the majority of rich nations have regularly failed to meet the 0.7 percent target. In some years, aid falls to between 0.2 and 0.4 percent of GNI—a shortfall amounting to hundreds of billions.

The fact that private philanthropic giving is *increasing* at the same time that, proportionately, the amount spent by Western governments as a ratio of their GNI is *decreasing* has led to the growing public perception that private actors are playing a strong or majority role in development financing when it comes to dollar expenditures. This is not, in fact, the case. Take the example of the Bill and Melinda Gates Foundation and global health. When it comes to financial investment, the Gates Foundation outpaces any other private philanthropic foundation in the world, donating over \$18 billion to global health programs to date.

While that figure is significant, it is paltry compared to what rich nations spend collectively on global health initiatives each year. From 2004 to 2008, for example, the President's Emergency Plan for AIDS Relief (PEPFAR) spent over \$18.1 billion on global HIV/AIDS programs. In other words, one singular initiative from the U.S. government had spending on par with the Gates Foundation's total spending on global health to date.

In recent years, the Gates Foundation has contributed more annually toward global health than individual nations

such as Canada and Germany, but less than the United Kingdom and the United States. In 2012, Canada contributed roughly \$379 million to overseas health programs; its annual spending on development aid in general—including funds earmarked for health—tends to hover around the \$1.5 billion mark. Germany spent \$307 million on health aid in that year, while the United Kingdom contributed \$1.3 billion to global health initiatives—a rise of 2.3 percent over the earlier year. The Gates Foundation, in comparison, spent \$899 million on global health in 2012. United States spending on global health amounted to more than that of the Gates Foundation, Canada, Germany, and the United Kingdom combined: its outlay in 2012 was \$7 billion.<sup>5</sup>

Although governmental overseas development assistance far exceeds the amount spent by private foundations on international development, foundations are rich in political influence. The visibility of the Gates Foundation enables it to leverage its own resources in order to rally partners to the causes it aims to prioritize. The eminent global health scholar Laurie Garrett has suggested that at the World Health Organization virtually no major policy decisions take place without being "casually, unofficially vetted by Gates Foundation staff."<sup>6</sup>

The visibility of the Gates Foundation helps to galvanize state funders to increase their funding toward areas that the Gates Foundation deems important, while simultaneously helping to entrench the questionable perception that states are increasingly deferring their own commitments to the philanthropic and corporate sectors. Many states are not, in fact, deflecting commitments to the private sector; they are channeling more aid directly to private industry. Governments are extending themselves in new directions in a semblance of surrendering control to private entities that are,

in many ways, *less* entrepreneurial than governments themselves.

In 2003, for example, DFID provided just under \$1.5 million in a one-off, nonrepayable donation to Vodafone to establish M-Pesa, a system allowing villagers in Kenya to pay bills through text message on their mobile phones. By 2007, Vodafone and Safaricom, a Kenyan company partly owned by Vodafone, had M-Pesa up and running. Within two years, the M-Pesa scheme accounted for a significant portion of Safaricom's \$200 million annual profits. By 2008, Safaricom was Kenya's (and also East Africa's) largest and most profitable company.<sup>7</sup> In 2010, the Gates Foundation offered a nonrepayable grant of \$4.8 million to Vodacom, a Vodafone subsidiary, to enable the company to roll out M-Pesa in Tanzania.

As of December 2011, Vodafone had a market capitalization of \$135 billion. In September 2010, the British-based company was criticized for tax avoidance schemes that enabled it to avoid billions by securing the acquisition of a German corporation through a Luxembourg subsidiary. Despite its ample resources, the company has stated that seed funding from the U.K. government was necessary to expand operations in less-developed markets. Nick Hughes, the global head of international mobile payment solutions at Vodafone, stated that without the \$1.5 million from DFID toward the development of M-Pesa, he could not have persuaded Vodafone to invest in the venture.<sup>8</sup>

DFID's support for Vodafone is regularly touted as an example of the benefits of providing governmental support to finance or corporate ventures. It is pointed to by DFID officials as an example of mutual gain: Vodafone expands its market reach, while domestic users benefit from enhanced technology. Cases such as the Vodafone example

are underpinning the so-called "market" turn in development, characterized by the recent explosion of public-private partnerships intended to combat persistent market failures in the provision of basic services or treatments.

Interestingly, in most public-private partnerships, the private sector is often seen as bringing market "efficiency" as well as financial resources and know-how to the relationship. But often it is governments that provide a financial subsidy or grant to industry, not the reverse. Despite the role played by governments in funding a development initiative, the ability of a private actor to capitalize on a project at the point of market access means that many casual observers are unaware that governments were even involved at all. Most popular press articles on M-Pesa celebrate the entrepreneurial acumen of Vodafone and Safaricom, despite the fact that Hughes is on record attesting to the fact that his colleagues at Vodafone refused to invest in the initiative without a government grant. A recent article in *Wired*, for example, hails M-Pesa as a "non-governmental, cashless system," calling it a "rare example of Africa successfully leapfrogging the developed world's legacy infrastructure and moving straight into a mobile system."<sup>9</sup>

### *Governments to the Rescue*

Public ignorance of DFID's direct grant to Vodafone helps to entrench a widely held fallacy: that private actors are inherently more innovative or entrepreneurial than public ones. Recently, a number of influential economists have sought to challenge this notion, questioning the idea that the private sector is necessarily more risk friendly than state actors in creating new economic markets. Lazonick and Mazzucato have been at the forefront of research examining the role of the public sector in driving innovation in the private sector. They suggest

that there is a growing disconnect between the economic actors driving innovation, including governments, and those reaping the financial rewards of public-sector investment. "While risk-taking has become more collective—leading to much discussion about *open* innovation and *innovation* ecosystems," they write, "the reward system has become dominated by individuals who, inserting themselves strategically between the business organization and the product market . . . lay claim to disproportionate share of the rewards of the innovation process."<sup>10</sup>

One of Lazonick and Mazzucato's aims is to emphasize that the willingness to invest in the most uncertain phase of a fledgling sector's development demonstrates that government actors don't simply regulate or "fix" markets, they actively create and shape new market opportunities. Governmental underwriting and subsidies toward industry groups is a well-documented phenomenon; Michael Lind's 2012 book, *Land of Promise*, for example, details the long history of government investment in new rail and extractive technologies in the nineteenth century.<sup>11</sup> And yet, according to Lazonick and Mazzucato, many mainstream economists remain either indifferent or blind to the strong role of the state in financially underwriting innovations. They suggest that while there is fairly widespread recognition of the import of the economist John Maynard Keynes's insights on the value of state investment during economic *downturns*, the fundamental role of the state in driving innovation in economic *upswings* is curiously ignored. Similarly, while many economists recognize the strong role played by states in creating new markets in developing regions, fewer economists "have focused on the state as a leading actor even in the most developed regions of the world, such as Silicon Valley."<sup>12</sup>

Because the state's early investments in innovation are often capitalized upon by private investors, it is difficult to measure the financial returns directly generated through state investment. In other words, it is hard to measure which is the *most* innovative—the state or the private sector. In Lazonick and Mazzucato's words, the "failure to recognize the State's risk-taking role, and the 'bumpy' landscape on which it invests, makes it almost impossible to measure its success." Despite this difficulty, it is incontestable that government investment has been the genesis of many of the most successful and profitable innovations in recent decades, including the development of the Internet.

In blunt language, Lazonick and Mazzucato suggest that increased state subsidies "permit companies to get off the hook of making these risky investments themselves even as their executives deliberately make no mention of State support. Indeed they invoke 'free market' ideology to claim that, having taken all the risks, 'private enterprise' needs to reap all the rewards."<sup>13</sup>

The misguided tendency to assume that private actors are inherently more innovative than governments underscores a degree of rhetorical confusion within the philanthrocapitalism movement. Often, words such as "entrepreneurial" and "innovative" are used interchangeably to describe the purportedly novel approach of new philanthropic initiatives, with little empirical support for whether these "new" approaches do actually represent substantive changes over earlier business models.

As Ruth McCambridge, editor in chief of the *Nonprofit Quarterly*, writes in an article questioning the increased vogue for words such as "innovation" and "entrepreneurship," in reality these things are often very distinct, if not incompatible:

You do not necessarily need a new idea to be an entrepreneur—you just need to figure out the packaging that will sell a product to the buyer in a way that builds an institution. The most common definition of an entrepreneur is "one who organizes, manages, and assumes the risks of a business or enterprise" . . . entrepreneurs open up pizza places and spas, and build carpeting emporiums—none of which is especially innovative.<sup>14</sup>

Defined in this way, it becomes clear that very few of the "new" development initiatives touted by the new philanthropists, such as microfinance, could be called either innovative or entrepreneurial. The first modern microfinance institution (MFI), the Grameen Bank (founded in 1983 by Muhammad Yunus, who later won a Nobel Peace Prize for his work), was indeed innovative—providing financial services on a nonprofit basis to populations shunned by Wall Street-type lenders. But MFIs since are mostly derivative. Those that *have* innovated, such as by charging increased interest rates, have done so at the expense of Yunus's initial vision. Many MFIs today operate on a for-profit rather than nonprofit basis. Some charge crippling high interest rates, eliciting Yunus's censure for the explosion of MFIs that increase indebtedness.

### The New Déjà Vu: Impact Investing as Market Opportunity

Impact investing is another area where there's considerable hype over the idea that investors can "do good by doing well." It's defined as the idea that individuals can earn "market-rate" financial returns for investing in projects geared toward providing environmental and social benefit. A recent report from Monitor, a consultancy firm founded by the management scholar Michael Porter,

provides a comprehensive overview of impact investing. The report states that investor excitement over impact investment has been fueled by a 2010 study from J.P. Morgan, the Rockefeller Foundation, and the Global Impact Investing Network, which predicted that potential profits for investors could range from \$183 billion to \$667 billion, with invested capital reaching \$1 trillion.<sup>15</sup>

Attracted by the capacity for profit, investors flocked to this space—but since then, as the Monitor report notes, investors have been dealt a "reality check." There are not enough financially promising companies for impact investors to invest in. Organizations abound that appear to offer *social* benefit, but whether they can offer market-based returns is questionable—and vice versa. The experience of the Acumen Fund, a nonprofit group that funds market-based solutions to development challenges, illustrates this problem. After considering five thousand potential companies over ten years, it invested in only sixty-five of them. Quoting a candid comment from Andrew Carnegie, "Pioneering don't pay," the Monitor report acknowledges that most for-profit investors are reluctant to invest in areas where the financial payoff is uncertain. As coauthor Robert Katz wrote in a press release, because for-profit investors are uneasy about investing in risky financial ventures, "truly realizing the 'impact' in impact investing will require more, not less, philanthropy."<sup>16</sup>

The Monitor report draws on the case of microfinance to support its call for increased philanthropic support for impact investing. The authors note that, before microfinance became financially profitable, the microfinance sector received roughly \$20 billion in subsidies from philanthropies and governmental aid. The report emphasizes that microfinance is now a financially

robust impact investment area. While still underperforming compared to some market-based sectors, “[N]et internal rates of return for debt-based microfinance investment vehicles (MIVs) averaged 4.9 percent through 2008, while riskier equity-based MIVs achieved 12.5 percent.” Two leading proponents of impact investing, Jed Emerson and Antony Bugg-Levine, share this favorable view. In a 2011 interview, they pointed out that, even during the recent economic downturn, “impact investors in microfinance bonds received a consistent 6 percent return . . . not a bad financial return at all.”<sup>17</sup>

In other words, after billions in subsidies from taxpayers, microfinance investors are finally starting to turn a handsome profit for investors in the Global North. But are they actually helping loan recipients in the Global South?

The answer appears, so far, to be no. There is considerable literature on the adverse effects of microfinance, detailing the ways that both for-profit and nonprofit microfinance lending often saddle loan recipients with crippling debt. There is currently no evidence that microfinance is playing any significant role in poverty reduction, something that Bugg-Levine and Emerson do acknowledge, pointing out that the for-profit turn in microfinance has led to “unintended consequences” for the poor.<sup>18</sup>

The cases of impact investing and microfinance underscore an unresolved question surrounding the new philanthrocapitalism: where’s the evidence that the growing trend of using overseas development aid and philanthropy to offer subsidies to the private sector is helping to directly alleviate poverty in development regions? According to a 2015 working paper from Paddy Carter, a researcher at the Overseas Development Institute, the evidence is far thinner than people often realize. Carter is an advocate of the

idea that governments can and should offer subsidies to private industry, but he suggests that champions of this approach require far more demonstrable proof that returns to general society outweigh returns to private investors; otherwise, the decision to offer money to a for-profit rather than a nonprofit recipient is not defensible.<sup>19</sup>

### *Subsidizing the Corporate Sector*

One of the strongest champions of the idea that philanthropists should directly subsidize corporations is the Gates Foundation.

In 2013, the Gates Foundation announced a grant of \$100,000 to Ogilvy PR, a public relations firm, for a project called “Aid is working: tell the world.” Ogilvy PR is part of Ogilvy and Mather, one of the largest marketing companies in the world. That Ogilvy is a benefactor of Gates Foundation largesse raises uncomfortable questions. Corporations receive sizable tax breaks in the United States. Is a gift from the Gates Foundation to Ogilvy, or its \$4.8 million grant to Vodacom, really the best use of money that, if it had been taxed as income rather than placed in a philanthropic trust, would have benefited government relief programs? It is incontestable that M-Pesa has created benefits for local communities in Kenya and elsewhere—but, given the financial windfall the program has generated for Vodafone, should the company not have borne the cost of its investment? Why are taxpayers increasingly helping to subsidize the returns of for-profit companies that have healthy profit margins, as the Vodafone and Ogilvy examples indicate?

These questions are at the heart of a recent controversy over the value of AMCs (advance market commitments), a type of financial mechanism where manufacturers are guaranteed a market for new products at a set price in

exchange for developing treatments for diseases such as malaria and tuberculosis. Despite governmental and industry acclaim for AMCs, critics suggest that the first and sole AMC to date—a vaccine against pneumococcal disease—has not been as cost effective as it could have been, profiting industry at the expense of taxpayers.

Below, as a final case study, I explore recent debates over the first AMC. My aim is to emphasize the following point: by partnering with the private sector through a public-private partnership such as the AMC, governments often surrender both the ability to generate revenue from products and the legal ability to determine the cost effectiveness of existent or future projects. Both knowledge and income are sacrificed in the name of purported increases in efficiency—a problem that is growing more acute as ever more overseas governmental development aid is gifted to private companies.

### **Advanced Market Commitments: Hype or Hope?**

For decades, health and development scholars have called attention to a long-standing problem in global health: the lack of new drugs for diseases that afflict the world’s poor proportionately more than the world’s rich. A 2002 study found, for example, that of the 1,393 new chemical entities marketed between 1975 and 1999, only sixteen were for tropical diseases and tuberculosis. In the years since, there has been a groundswell of political and public support for new financing and legal initiatives intended to combat this problem by incentivizing multinational companies to invest in research and development for diseases that primarily afflict the poor.

The AMC is one such mechanism. It is a model of vaccine and drug development first proposed in the 1990s by

Michael Kremer, an economist at Harvard University. One of Kremer's aims was to battle the shortage of vaccines in developing regions. His initial idea was fairly simple: a donor makes a binding commitment to purchase a particular amount of a vaccine or drug if that product is successfully developed and rolled out in developing regions. The appeal is clear. Kremer's aim was to get around the fact that a considerable amount of government funding goes to early seed research that often fails to yield viable products. The aim of the AMC model is to offer a reward for concrete results.

In 2004, the Gates Foundation funded a working group to examine the viability of AMCs. This led to *Making Markets for Vaccines*, a 2005 report from the Center for Global Development (CGD).<sup>20</sup> Government actors soon came on board. In December 2005, the U.K. government announced its intention to fund an AMC for malaria; other European Union countries stated that they might consider following suit. By June 2009, plans for the first AMC had crystalized. Working with the organization Gavi, the Vaccine Alliance (Gavi is an acronym for "Global Alliance for Vaccines and Immunizations"), the governments of Italy, Norway, Canada, Russia, and the United Kingdom, together with the Gates Foundation, committed a total of \$1.5 billion toward the development of a vaccine against pneumococcal disease, which kills an estimated 1.6 million people each year, most of them children.

In 2010, Pfizer and GlaxoSmithKline (GSK) responded to a tender to distribute the vaccines, committing to supply millions of doses of the vaccines, which each manufacturer had previously developed: Synflorix, in GSK's case, and Pfizer's Prevenar 13. Although each vaccine commands a market price of about \$70 per injection in developed regions, the companies agreed to distribute them for an

initial price of \$7, then \$3.50 for the next ten years, with local governments committing 15 cents of the \$3.50 and the rest covered by pledges from government actors and the Gates Foundation.

A first rollout of the AMC-funded pneumococcal vaccine took place in December 2010. In a press release at the time, Gavi lauded the new AMC. "By rapidly scaling up the roll out of the pneumococcal vaccine to more than 40 countries," Gavi stated, "the GAVI Alliance and its partners, including the Pan American Health Organization (PAHO), the World Health Organization (WHO) and UNICEF, can avert approximately 700,000 deaths by 2015 and up to seven million deaths by 2030."<sup>21</sup>

And yet, despite the fanfare, the development of the first AMC has faced persistent criticism. Health economists suggested that the vaccines might have been purchased far more cheaply by traditional UNICEF procurement procedures; that Gavi lacked transparency in deciding how much to reimburse manufacturers for each vaccine; and that the creative possibilities first envisioned by Kremer—such as relaxing patent rules that make it hard for generic competition to flourish—were eclipsed from deliberations as the model became a reality.

Concerns centered on the high costs of the first AMC. Part of the challenge of the AMC model is generating a figure that would ensure that industry manufacturing costs in rolling out the vaccine are reimbursed—while still convincing government donors that tax dollars have been spent effectively. In May 2008, at one of the final meetings of the CGD expert working group sponsored by the Gates Foundation, the group recommended a payment of ten dollars per dose. Some donor countries, including Norway, argued that the cost was too high and had been set, as an article in the *Lancet* noted, "by industry premises."

Norway argued the cost should be no higher than seven dollars.<sup>22</sup>

The health economist and sociologist Donald Light suggested that the ten-dollar figure produced by the CGD working group was based on much-debated industry figures of how much it costs to bring a new drug to market. The economist Andrew Farlow has suggested that champions of AMCs promote "advance purchase commitments in much the same way that some pharmaceutical companies promote 'wonder drugs': emphasizing the positives, burying the negatives, and ending up suggesting that we now have all the answers—or rather just the one answer—that we need."<sup>23</sup>

Gavi eventually decided on a price of seven dollars per initial dose—considerably less than initial estimates. Rather than alleviate concerns, the arbitrary price drop simply compounded the controversy over AMCs, because the price drop was just that: arbitrary. Nobody could say for certain why GSK and Pfizer should receive fifteen dollars per dose, or ten, or seven, because the companies refused to release information on their own manufacturing costs. Staff at Médecins sans Frontières (MSF), which has long been a pioneer in vaccine delivery in poor regions, repeatedly asked for the baseline data on which the AMC was modeled. Gavi promised to release the data but failed to follow through.

During an interview with Gavi, a representative told me that she would have liked to have been able to share more data with MSF and other organizations, but emphasized that legally Gavi was not permitted to. "One of the biggest challenges we have is how big is this incentive . . . the criticism is, 'you're overpaying.' And you say, 'no, we're not overpaying,' but how can you share it when you can't share the cost information?"

Leading health organizations such as MSF remain concerned that, in the

absence of data on manufacturing costs, it is hard to gauge whether Gavi—and the governments that help to fund it—have been overpaying GSK and Pfizer for distributing the vaccines. In 2010, MSF and Oxfam International released a report questioning whether AMCs were “an appropriate mechanism for stimulating development of new vaccines, as originally hoped.”<sup>24</sup> The unanswered question of exactly how much the pneumococcal AMC financially profited GSK and Pfizer is particularly important given budget reductions at United Nations bodies such as WHO. In recent years, WHO has seen significant reductions in voluntary contributions from states. As Garrett has reported, the current budget crisis at WHO has seen over 12 percent of the agency’s staff let go in the past four years.<sup>25</sup>

During a period of diminished contributions by governments to WHO, countries such as the United Kingdom, Italy, and Canada have increased contributions to new public–private partnerships such as Gavi. In many ways, the money for Gavi is to be much welcomed. Increased childhood vaccinations are a considerable health improvement of the past decade. But an outstanding question is whether payments to industry could have been lower, ensuring that government grants to the private sector are spent in a cost-effective way. The more fundamental question is whether state development aid should be subsidizing the pharmaceutical industry—currently one of the most profitable industries in the world—at all.

Public health scholars Anne Emanuele Birn and Joel Lexchin have suggested that, as a long-term strategy, Gavi should support the development of public, parastatal companies for vaccine research and production. Cuba and Brazil are two states that have adopted such a model. Since focusing on local

capacity building in the 1980s, Brazil has become self-sufficient in producing eight vaccines, including for polio and hepatitis B. Embracing a public model may avoid the detriment detailed above: the inability to access commercial production costs.<sup>26</sup>

### Conclusion: Lionizing the Wrong Schumpeter

In this article, I have sketched some preliminary challenges to the assumption that lone entrepreneurs and philanthrocapitalists represent a radical break from earlier efforts to court capital investment from traditional lenders, including governments and philanthropic foundations. Within the “new” philanthrocapitalism movement, state aid to for-profit organizations continues to be a key source of support for business ventures that, as the microfinance case illustrates, often benefit wealthy investors at the expense of loan recipients in poor countries. In *Capitalism, Socialism, and Democracy*, Joseph Schumpeter extensively detailed the ways that corporations rely on legally favorable institutional arrangements, including patents, in order to ensure returns on investment. “Long-range investing under rapidly changing conditions . . . is like shooting at a target that is not only indistinct but moving—and moving jerkily at that,” Schumpeter wrote. “Hence it becomes necessary to resort to such protecting device as patents.”<sup>27</sup> He emphasized the importance of government aid and intellectual property protections to economic growth.

Today’s philanthrocapitalists are valorizing a convenient caricature of Schumpeter, neglecting his analyses of the ways that, through patents, subsidies, and competition legislation, governmental support is instrumental in sustaining economic prosperity. Through such selective valorization,

philanthrocapitalists have helped to perpetuate a dubious belief: the idea that corporations and private entrepreneurs are subsidizing gaps in development financing created by increasingly noninterventionist states. In reality, it is often governments subsidizing the philanthrocapitalists.

### NOTES

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