

– EDITED TRANSCRIPT –

# HUDSON INSTITUTE'S

Center for Employment Policy,  
Bradley Center for Philanthropy and Civic Renewal, and  
Center for Global Prosperity

*present a discussion of*

## How Entrepreneurs Help Philanthropists, and How Philanthropy Inspires Entrepreneurs

Tuesday, October 16, 2007, Noon to 2:00 p.m.  
The Betsy and Walter Stern Conference Center  
Hudson Institute, 1015 15th St., N.W., Ste. 600, Washington, DC 20005

Philanthropy has been part of the implicit American social contract that continuously nurtures and revitalizes economic prosperity. American philanthropists—particularly those who have made their own fortunes—create foundations that, in turn, contribute to greater and more widespread economic prosperity. Analyzing philanthropy sheds light on our current understanding of how economic development has occurred, as well as the roots of American economic dominance. On Tuesday, October 16, **ZOLTAN ACS**, of George Mason University, discussed his thought-provoking paper, “The Entrepreneurship/Philanthropy Nexus.” As ACS claims, what differentiates American capitalism from all other forms of industrial capitalism is a focus on both the creation of wealth (entrepreneurship) and the distribution of wealth through philanthropy. **CAROL ADELMAN**, of Hudson Institute, introduced the topic and commented on ACS’ paper and presentation.

### PROGRAM

12:00 p.m. Welcome by Hudson Institute’s **WILLIAM SCHAMBRA**  
12:10 Panel discussion  
Panelists: **CAROL ADELMAN**, Hudson Institute  
**ZOLTAN ACS**, George Mason University  
1:20 Question-and-answer session  
2:00 Adjournment

THIS TRANSCRIPT WAS PREPARED FROM AN AUDIO RECORDING AND EDITED BY KRISTA SHAFFER. To request further information on this event or the co-sponsoring policy centers, please contact Hudson Institute at (202) 974-2400 or e-mail Krista Shaffer at [Krista@hudson.org](mailto:Krista@hudson.org) or Andrew Brown at [Abrown@hudson.org](mailto:Abrown@hudson.org).

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# BIOGRAPHIES

## ZOLTAN ACS

Zoltan Acs is a professor at the George Mason University School of Public Policy, and the director of the Center for Entrepreneurship and Public Policy. He is also a research scholar at the Max Planck Institute for Economics in Jena, Germany, a scholar-in-residence at the Kauffman Foundation, and the co-editor and founder of *Small Business Economics*, a publication focused on entrepreneurship and small-business topics.

He has worked as the Doris and Robert McCurdy Distinguished Professor of Entrepreneurship and Innovation at the University of Baltimore, a research fellow at the U.S. Bureau of the Census, chief economic advisor at the U.S. Small Business Administration, associate director of the Center for International Business Education and Research at the University of Maryland, and research associate at the Institute on Western Europe at Columbia University.

Dr. Acs is an advocate of encouraging entrepreneurship as a means of advancing economic development. In this capacity, he received the 2001 International Award for Entrepreneurship and Small Business Research, on behalf of the Swedish National Board for Industrial and Technical Development. He has published over 100 articles and 20 books, in such distinguished publications as the *American Economic Review*, *Review of Economics and Statistics*, *Kyklos*, *Journal of Urban Economics*, *Economica*, *Research Policy* and *Science Policy*.

Dr. Acs received his B.A. in economics from Cleveland State University, and his Ph.D. and Master of Arts from the New School.

## CAROL ADELMAN

Dr. Carol Adelman is the director of the Center for Global Prosperity at Hudson Institute, and publishes the annual *Index of Global Philanthropy*, the first comprehensive guide to private philanthropy and remittances flows abroad. She is president of a leadership and management training company, and teaches regularly in the leadership program at the Wharton School of Business.

Dr. Adelman served as a career foreign service officer with USAID in the 1970s, where she lived in Africa and later designed and evaluated aid programs in Latin American and Asia. As a presidential appointee, she was an Assistant Administrator

under Presidents Ronald Reagan and George H. Bush, in charge of foreign aid to Asia, the Middle East and Eastern Europe when the Berlin Wall fell. Dr. Adelman is currently vice chair of the H.E.L.P. Commission, a bipartisan congressionally mandated commission to reform foreign aid.

She has written on foreign aid and philanthropy in *The New York Times*, *Foreign Affairs*, *Wall Street Journal* and various technical journals, as well as publishing a book, *The New International Regulatory Order: New Rules in a Changing World Order*. She is past president and board member of Capital Partners for Education, a local charity that provides scholarships and mentor to low-income children in the Washington, D.C. area. Dr. Adelman is a vice chairman of the Atlantic Council and member of the Council on Foreign Relations. She holds a doctorate in Public Health from Johns Hopkins University, a masters in Foreign Service from Georgetown University, and a B.A. from the University of Colorado, including a year's study at the University of Bonn, Germany.

### **WILLIAM A. SCHAMBRA**

William A. Schambra is the director of the Hudson Institute's Bradley Center for Philanthropy and Civic Renewal. Prior to joining the Hudson Institute in January of 2003, Dr. Schambra was director of programs at the Bradley Foundation in Milwaukee. Before joining Bradley in 1992, Dr. Schambra served as a senior advisor and chief speechwriter for Attorney General Edwin Meese III, Director of the Office of Personnel Management Constance Horner, and Secretary of Health and Human Services Louis Sullivan. He was also director of Social Policy Programs for the American Enterprise Institute, and co-director of AEI's "A Decade of Study of the Constitution."

Dr. Schambra was appointed by President Reagan to the National Historical Publications and Records Commission, and by President George W. Bush to the board of directors of the Corporation for National and Community Service.

Dr. Schambra has written extensively on the Constitution, the theory and practice of civic revitalization, and civil society in *The Public Interest*, *Public Opinion*, *The Wall Street Journal*, *The Washington Times*, *Policy Review*, *Christian Science Monitor*, *Nonprofit Quarterly*, *Philanthropy*, *The Chronicle of Philanthropy*, and *Crisis*, and is the editor of several volumes, including *As Far as Republican Principles Will Admit: Collected Essays of Martin Diamond*.

## PROCEEDINGS

WILLIAM SCHAMBRA: My name is Bill Schambra, and Krista Shaffer and I comprise the Bradley Center for Philanthropy and Civic Renewal here at Hudson Institute. We're proud to co-sponsor today's event with Diana Furchtgott-Roth and her Center for Employment Policy as well as Carol Adelman and her Center for Global Prosperity, both here at Hudson Institute.

First, as is customary with the Bradley Center, let me give you just a quick overview of coming attractions so you can mark your calendar; the invitations will be going out shortly. On October 29, we will have a panel featuring Ed Skloot, who just retired from a long, distinguished career at the Surdna Foundation in New York. He'll be reflecting on his career and the current state of philanthropy in America. On November 15, we will have a panel examining the question of general operating support – namely, why is it so honored in speech but so ignored in practice? That panel will feature Kathleen Enright from Grantmakers for Effective Organizations (GEO). And finally, on November 27, we have a panel on the problems and prospects for social venture philanthropy, featuring Paul Shoemaker from Social Venture Partners, Seattle.

Someplace in there – I'm not quite sure where – we're anticipating the National Committee for Responsive Philanthropy (NCRP) to issue another in its series of critiques of conservative grantmaking, this one a critique of education grantmaking. We will have a panel featuring a discussion of that report very shortly after it comes out.

Upcoming events for Diana Furchtgott-Roth's Center for Employment Policy are as follows: on Tuesday, November 13 from 11:45 to 2:00 p.m. she will host a panel entitled "The Law and Innovative Business: Proactive Policy for Encouraging Entrepreneurs," featuring Viktor Mayer-Schoenberger of Harvard University.

Today's panel features a paper arguing that, "American philanthropists created foundations that in turn enabled greater and more widespread economic prosperity by investing in the future of America." Indeed, the paper, entitled "The Entrepreneurship/Philanthropy Nexus: Nonmarket Source of American Entrepreneurial Capitalism" (available online at [http://www.hudson.org/files/pdf\\_upload/2007\\_06\\_Entrepreneurship\\_Philanthropy\\_Nexus\\_Acs.pdf](http://www.hudson.org/files/pdf_upload/2007_06_Entrepreneurship_Philanthropy_Nexus_Acs.pdf)), suggests that it is the prime purpose of American philanthropy to build up the great social institutions that in turn pave the way for future economic growth.

As the authors of this paper realize, this vision of an immediate and even causal link between philanthropy and the flourishing of capitalism is not exactly a common point of view in the world of American foundations. While everyone understands that without capitalism there would be no foundations, of course, very few have suggested that foundations are somehow vital for or should devote themselves to capitalism's economic success. Indeed, liberals tend to view philanthropy rather as a kind of standing critique of capitalism, a way of cleaning up capitalism's messes. In fact, among some of the more progressive and innovative funders today, philanthropy is eagerly embraced as an instrument for weaning Americans *away* from capitalism all together. Conservatives grumble that liberalism seems to be the standard-issue ideology of those working

in foundations; they thus tend to agree that American philanthropy is radically at odds with capitalism, though unlike liberals they lament rather than celebrate this state of affairs.

Given this bipartisan and widespread view of the radical opposition between philanthropy and capitalism, we look forward this afternoon to a very different argument, in which philanthropy is recast as entirely the dutiful child of capitalism. To make that argument, we have with us one of the authors of “The Entrepreneurship/Philanthropy Nexus: Nonmarket Source of American Entrepreneurial Capitalism,” Zoltan Acs. Professor Acs is a professor at the School of Public Policy and director of the Center for Entrepreneurship and Public Policy at George Mason University. He is also a research scholar at the Max Planck Institute for Economics and a scholar-in-residence at the Kauffman Foundation.

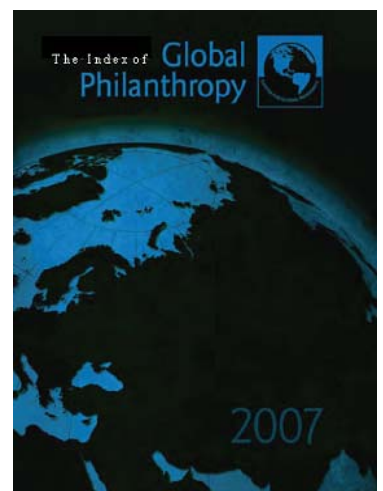
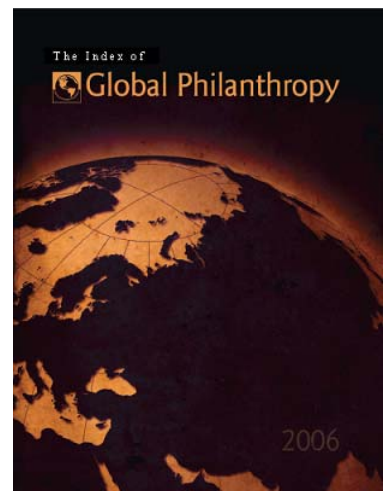
Commenting – actually preemptively – on this paper today is Carol Adelman, who is director of the Center for Global Prosperity here at Hudson Institute. Carol, I think, agrees with some of the points of the Acs paper; she has done some work at her center and in the *Index of Global Philanthropy* that she publishes each year that tends to provide some verification or some empirical evidence in support of Professor Acs’ thesis. I think it would be useful to hear some of the evidence that Carol has compiled in her work, and then we can build the theory on top of that by hearing from Professor Acs.

So, Carol?

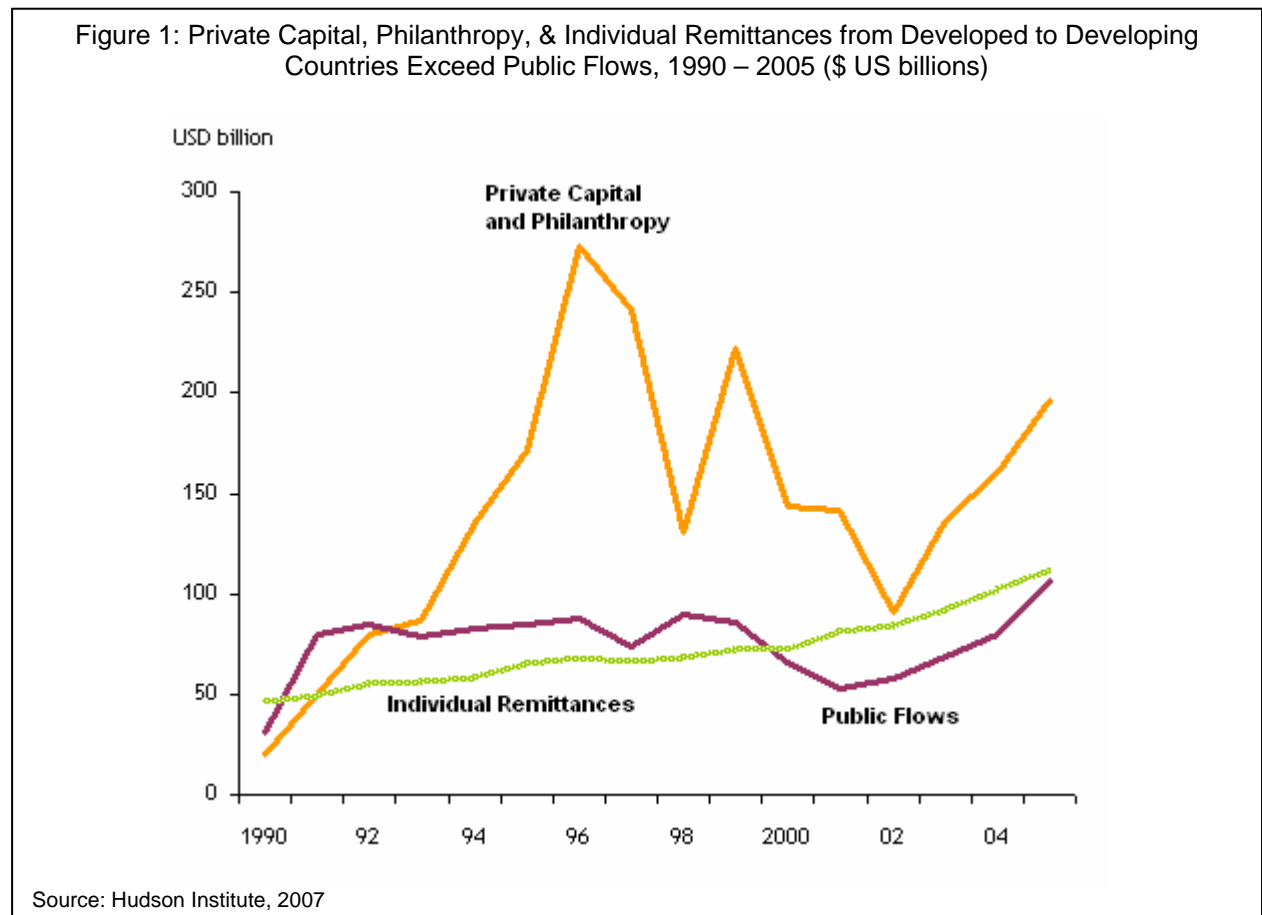
CAROL ADELMAN: Thank you, Bill. I’ve never actually commented on a paper before the speaker has presented it, but that’s how we’re doing it today. So the one thing that I will definitely avoid commenting on, then – at least until we’ve heard from him – is the complicated mathematical formula Zoltan has in his PowerPoint presentation (distributed in advance, the relevant slides of which appear below). (Laughter.)

I’m going to start by showing you a few slides from our *Index of Global Philanthropy* (2006 and 2007 editions, pictured right, available online at <http://gpr.hudson.org>), as Bill mentioned, and tell you about our approach to the *Index*, because I think that what we’ve thought about and learned about *newer* philanthropists and recent international philanthropy will lay the groundwork for Zoltan’s presentation.

We at the Center for Global Prosperity began by looking at how the developing world has changed with the growth of private investment, with private philanthropies doing more over there, with the growth of local philanthropy in the developing world, and with the expanding knowledge and demand through technology.



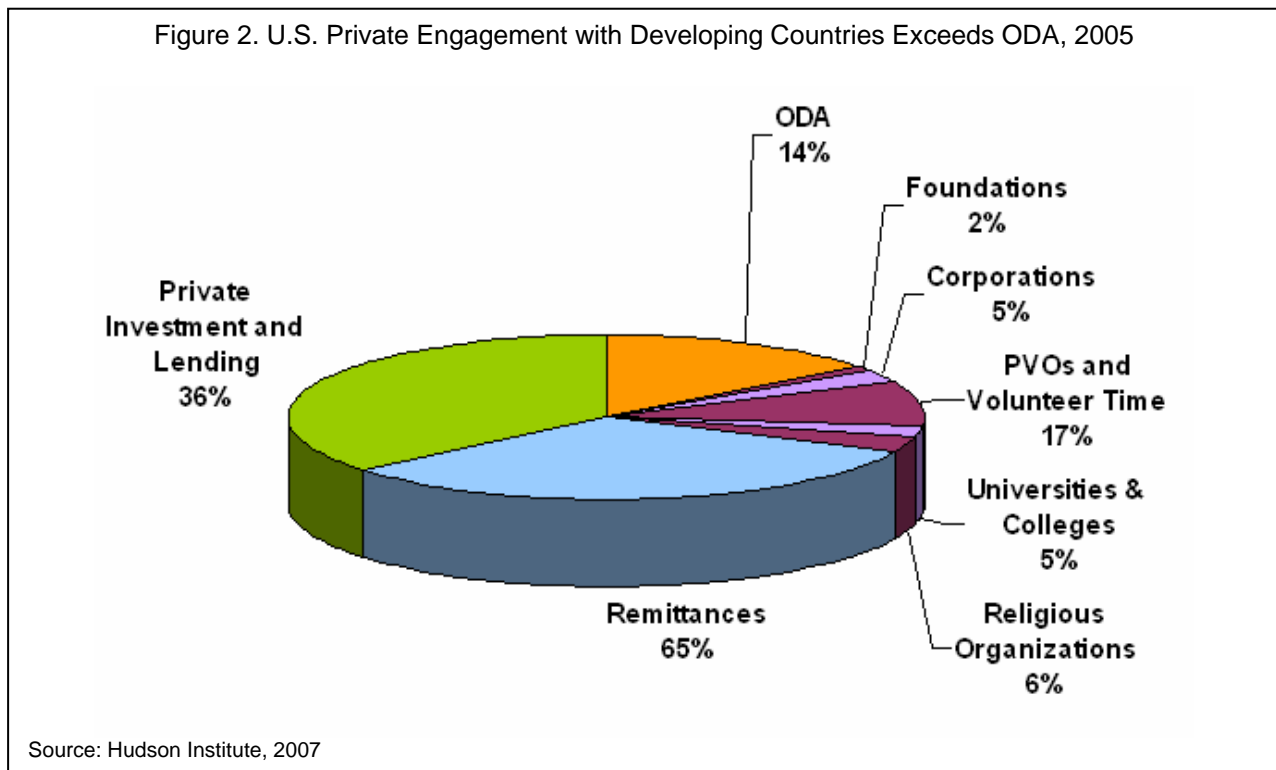
Originally, our research was a response to the notion that America is stingy; I'm sure many of you have heard the argument that American is stingy, that as a percentage of our gross national income our government foreign aid ranks us close to the bottom. The problem with that measure is that it is a measure of just government foreign aid. It might have been an appropriate measure back in the days of the Marshall Plan or back in the 1950s and 1960s, when indeed government and public flows were the primary source of financial flows out there. But since the time of the Marshall Plan – and really beginning after 1990, as this chart illustrates (see Figure 1 below, from Adelman's PowerPoint presentation) – private investment and philanthropy and remittances started to far exceed government flows, including both bilateral aid from governments as well as multilateral aid from for example the World Bank. If you add in remittances – the top line is private flows, and remittances is the green line – if you add in remittances and the private investment and philanthropy from all developed countries to the developing world, all of those private flows are 75 percent of the donor world's entire economic engagement with developing countries. It's very, very different from what it was in the 1950s and 1960s. So consequently, we need new measures. We need to move beyond just the measure of government foreign aid.



And so that was how our research started, but then as we moved into the research, we became much more interested in the actual examples of private philanthropy – what new twists and turns

it was taking overseas, how it was being delivered, best practices. Was it more efficient than government aid? So we gather the numbers but we focus also on that.

So, again, government aid is an incomplete measure of generosity. It excludes private giving. And it really depends on the government. And I think, quite frankly, there have been disappointing results and evaluation gaps with government foreign aid projects. This (Figure 2 below) is just to give you an idea of U.S. giving overseas or in terms of U.S. private engagement with developing countries and how it exceeds Official Development Assistance (ODA) – that’s our government assistance to developing countries. As you can see, our ODA is only 14 percent of our entire engagement with the developing world.



Foundations are 2 percent; corporations, 5 percent. And as you can see, it comes around to remittances being one of the largest percentages – even, and this is for the year 2005, higher than our private investment and lending. So I’ll show you this in terms of the absolute amounts (see Table 1 below). In 2005, government aid to developing countries was \$27.6 billion. Total private assistance was \$95.2 billion, and that consists of all of these categories including remittances. And then the private investment and lending was \$69 billion, for a total of \$192 billion. So in sum, this is what we look at with the *Index of Global Philanthropy*.

Table 1. Total U.S. Engagement with Developing Countries, 2005

	\$ US Billions	%
OFFICIAL DEVELOPMENT ASSISTANCE	27.6	14%
PRIVATE ASSISTANCE (preliminary data)	95.2	50%
Foundations	2.2	2%
Corporations	5.1	5%
Private & Voluntary Organizations/Volunteer Time	16.2	17%
Universities & Colleges	4.6	5%
Religious Organizations	5.4	6%
Individual Remittances	61.7	65%
PRIVATE INVESTMENT & LENDING	69.2	36%
TOTAL U.S. ENGAGEMENT	192.0	100%

Source: Hudson Institute, 2007

Now, in Zoltan’s paper he goes into the history of domestic philanthropy in America and who the early philanthropists were. And I agree that America is characterized by philanthropy; over three hundred years ago, Cotton Mather talked about how Americans should engage in a perpetual endeavor to do good. And indeed, we’ve helped countries over the last two hundred years in various earthquakes and natural disasters. The first official – government – foreign aid program was the Marshall Plan, and philanthropy has now developed into all of the many foundations that we know of today – from the large foundations like Rockefeller, Carnegie, and Ford to many of the new billionaire foundations cropping up, with Bill Gates and others.

It’s what we’re discovering about these newer efforts, I think, that really illustrates Zoltan’s paper. Words have been thrown out by various people writing about the overseas philanthropy – they use words and phrases such as “philanthrocapitalism” and “business at the bottom of the pyramid” – that’s where businesses can find ways of designing technologies and projects that will actually make profits but will be helpful to poor people. One example we found was in India, where a bank had built indestructible ATM machines for people in small villages so that they could indeed have a banking account and have access to money. Another phrase is “cause-related marketing,” for example Bono and Bobby Shriver’s (PRODUCT)RED campaign, or when a company promises that with the purchase of a certain product, a percentage of the cost goes to a charity or poor people. Global online giving has been a tremendous revolution, with eBay and organizations now that are cropping up where you can go online and choose the project to which you want to donate. You can pick a continent; you can select, say, Nigeria; you can decide that you want to help Madame Wanza with her chicken farm; you put \$50 in your “giving cart” just like you’re shopping at Wal-Mart; and then you move on to the next continent. This type of giving has dramatically reduced the transaction costs. Normally, a contractor with a

government foreign aid project is charging 50 to 100 percent overhead. Foundations and nongovernmental organizations have lower overhead costs – and Bill (Schambra), you’re going to be getting into this in one of your sessions coming up, the operating costs. For online giving, the overhead is only about 5 to 10 percent or so. It’s really transforming giving, making it more efficient.

And I’ll talk a bit about the remittances revolution, which has really transformed the world in terms of money that is going over; the transaction costs are very low, again; the money is going directly into families or villages where immigrants came from, where they want to for example build a clinic or provide money to loan to villagers so that they can start a business. The new technology of the cell phone has also transformed giving – some people even call the cell phone the “industrial revolution of the developing world.” More people in the developing world have cell phones than have bank accounts. The statistic out there is that the majority of the people in developing worlds have cell phones, and cell phone companies have now hooked up with banks and credit card companies so that immigrants here can send money directly through cell phones, and people in developing countries can get the money. These transaction costs are going down. And to name another example, farmers working in fields in rural India can check on their cell phone and see what the world price for rice is, and price their products successfully. There are just books and books on how these new technologies are changing the world.

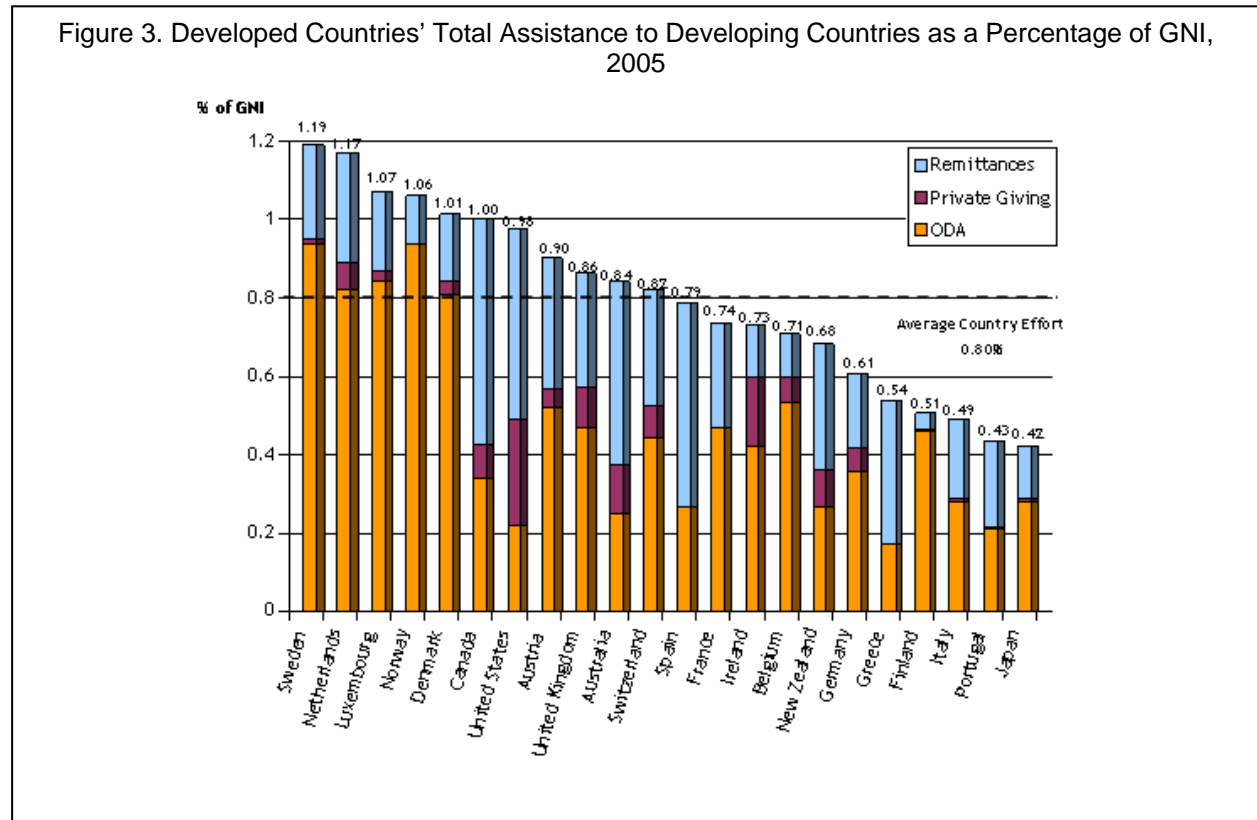
And we now have an explosion of new – relatively new, let’s say in the last twenty years or so – foundations and nonprofits that are indeed focusing primarily on helping businesses get started in developing countries, which I think is very different from the beginnings of the Ford and Rockefeller foundations, when they started doing their international projects. They were focusing more on institution-building and helping universities get started. Some of those universities might have been private, but many – most of them – were government related. Many of the new philanthrocapitalists and venture philanthropists are focused on, really, making business loans. The reason Muhammad Yunus won the Nobel Peace Prize was that he started a bank that was making loans to poor people and was distributing the profits to their enterprise, not to shareholders. So many of these nonprofit groups have started, and I think that this is a trend, and it’s probably what Zoltan is looking at as well, and we’ll hear about that in his presentation.

I also want to take a minute to mention European private giving. Americans give internationally the way they give domestically – more through their private institutions. And that’s the other reason why it’s unfair to compare just the government measure of giving, because when you take into account – as you saw on the chart before – our private giving from all of our private institutions, and if you include remittances, that private giving is three and a half times what our official government aid is. With Europeans, it’s much smaller. However, this phenomenon is changing in Europe as well. Two thirds of European foundations were established after 1970. Moreover, there are big variations between countries within Europe when it comes to private giving. There’s improved measurement. And there’s some very interesting new taxation policies, where corporations are now being allowed to deduct taxes on gifts that they’re giving, and even in some cases individuals are allowed to do this as well. And then, of course, there has been a big growth in remittances in Europe as well.

But I think generally people describe the European giving situation as one that – really foundations started in Europe, and they were much stronger in the nineteenth century and before World War I. It’s a continent that has been through world wars and the devastation of entire economies. Private wealth has really only in the last thirty years started to build up. And there’s a lot of disillusionment, too, in public opinion polls that Europeans have about the effectiveness and success of their governments’ aid programs. So it will be fascinating to watch and see if there’s a growth in European private giving, and if taxation policies begin to respond to that and change and prompt even more private giving.

But I think certainly for the foreseeable future the Americans will remain on top in terms of the percentage of GNI and how much we give in absolute amounts in terms of our private giving.

Now, I’m always asked the question, when you add on our private giving and remittances and you use a more complete measure of this giving, how do we then compare to other countries? Well, here’s the chart (see Figure 3 below)! The yellow parts of this chart are government aid that all of these donors give the developing world. The purple is private giving. And then the blue is remittances sent back by immigrants. This doesn’t include private investment, by the way – we still need to do a chart like that. But you should know that including the private giving for the United States moves us up to about seven from the top. It also moves up a lot of the Commonwealth countries – the United Kingdom – which have a tradition more of private giving and have also been more open to accepting immigrants as well, versus some of the Scandinavian countries where there’s less immigration.



Now, our private giving is measured accurately, but the private giving measures for other countries are not very well done. They're likely higher than what you see there because these countries don't yet have a Hudson Institute measuring the giving (laughter) and doing a better job, although we're establishing with a lot of research groups in Germany, France, and the U.K. which now produce better measures for these countries as well.

Of course, when we do this, the Scandinavian countries still stay at the top because they give such a high percent of their government aid, and this is a measure of the percent of GNI. But as you can see, Canada, the United States, and the United Kingdom move up to the top, which we think is a better reflection if you're going to be comparing countries' economic engagement, influence, and interaction with the developing world.

Still, getting into this numbers game of who's more generous is kind of a silly game to get into, and the only reason I'm in it is because people were accusing the United States of being stingy, so consequently we began portraying other arguments. There are many other ways of measuring our help to developing countries – trade, through our military ventures, in peacekeeping, through our transfers of technology that we're doing from our private sector and all of this. So this is indeed one way of addressing this issue of – through aid flows – the comparative generosity of countries.

So, that is just a little bit about what we're doing here at Hudson Institute with these numbers. And why don't I take just a couple of – if anyone has any questions on these numbers?

QUESTION: Let's take a look at Australia, Canada, and Spain. What accounts for their large percentage compared to GNI of private giving versus public giving?

CAROL ADELMAN: Australia would be because it is a Commonwealth country and it just has a greater tradition of private giving, and taxation rates are probably more conducive to it – I think that's the reason there. For Spain, I think it is that Spain has a lot more private investment than a lot of other European countries, but I don't really know the reason, to be honest. It's a good question. Bill, do you have a comment?

WILLIAM SCHAMBRA: I just – one interesting question this does raise – Carol (Adelman) and I talked about doing a panel on this as well, at some point, perhaps this fall: Is it legitimate to count remittances as foreign aid? Certainly if you ask the people who are sending the remittances, they don't think of what they're doing as foreign aid in any sense. They think of it as supporting the family or supporting the town from which they came. And yet it is in fact a form of development, and if you read the stories about development, it's much more effective. The people from the village know precisely what's going on with their money back home. They know exactly where the money is going. They know that it is being delivered in a very efficient way to a particular group of people who are buying extra agricultural equipment, for example, or starting a store or whatever they're doing with it back home. So it's not only in that sense foreign aid, but also very efficient. It will be interesting, I think, to have that conversation, because obviously folks who do the measuring in this area have some question of whether remittances are to be counted as development assistance. But you must have thought about that, Carol – so can I ask, what was your argument?

CAROL ADELMAN: Well, we may even be changing our argument. We have included them in the Index of Global Philanthropy, but we've been very open in our first edition (2006, online at <http://gpr.hudson.org>) with just a discussion of "Remittances: Aid, Philanthropy, or Family Business?" (p. 30). We really decided we would lay out the arguments pro and con and let people decide for themselves. We also list them as a separate line, and if people don't want to count them as philanthropy, it's very easy to pull the number out. And so – we're rather torn; we have divisions on our team of researchers, here, of whether it should be considered aid.

Clearly, though, a growing part of remittances is money that is put together by groups of immigrants here in the United States. They organize themselves in groups they call "hometown associations." They have bake sales the same way we raise money traditionally in America. And they come together, raise money, and then send that money back to a village to build a clinic or a school or a road, or whatever. And so that we would definitely call philanthropy. As far as we know, we think that amount as a percentage of total remittances is – at the very highest – probably 10 percent or so.

But for comparative purposes, comparing remittances and foreign aid, when the government sends food and medicines to individual people in developing countries, that's counted in the official development assistance number. Immigrants who are here, who are able to earn money that they couldn't earn back home because of our economy, and who are sending it back to individuals are sending basically the same thing based on the economy that they are allowed to participate in here. So for comparative purposes, it's a little easier to make the argument.

Diana?

DIANA FURCHTGOTT-ROTH: We've been talking about how entrepreneurship causes philanthropy and how entrepreneurs generate more philanthropy here in the United States. Have you measured how much philanthropy and remittances help entrepreneurship in developing countries – have there been any studies of that, in terms of these remittances going home, maybe to support small business, or grants from foundations going to set up innovative and entrepreneurial firms in other countries?

CAROL ADELMAN: We don't have any total, quantitative measure on it, but – and the *Index* discusses a lot of these organizations, too – there has just been an explosion in nonprofit organizations and even in corporations of programs to start businesses. But we haven't really, and I don't think anybody has, pooled them all together and said, okay, we think that they have generated so many jobs or so much capital or – you know, we don't have a quantitative measure of that. But it's clear – Schwab has a program called Schwab Entrepreneurs, and they support entrepreneurs in whatever business they're doing. There are thousands of microfinance organizations, now, that are making loans to small businesspeople. There are groups like the Acumen Fund and the Ashoka Foundation that are focused almost exclusively on business creation and job creation. But it's a good question. There are people maybe out there who are starting to measure that now, but we don't have it broken out by itself.

QUESTION: In the previous slide, you mentioned something about improved measurement and new taxation policies in Europe, and you spoke to new taxation policies, but I was curious about their improved measurement, and what sorts of measures they are taking to improve that.

CAROL ADELMAN: Well, not a lot – but it is improved. There is a European Foundation Centre now, based in Brussels. It has just done a survey of all European foundations and they're looking at both domestic and international giving. We attended a conference in Lisbon that the European Foundation Centre did with the OECD where they are indeed starting to talk about foundations and public-private partnerships. We work with a couple of groups – a couple of research groups contacted us wanting to do the same thing that we're doing. So it's starting – in a very small way – but it is starting. Not in a big way yet.

JOHN FOSTER-BEY, Corporation for National and Community Service: I noticed on one of the charts, when you had the various components of philanthropy, you had private and voluntary organizations and volunteer time. And I was just curious about how you converted that into an actual dollar amount.

CAROL ADELMAN: Good question! We explain that methodology in the *Index*, but out of that \$16.2 billion, about \$4 billion of that is volunteer time. We have a measure by the Independent Sector of the number of volunteer hours, and then they have a percent of that that is international – they get that through a survey question. Then there is an average dollar amount that is an average wage, looking at different sectors – it's something like \$17 or \$18 per hour. It's all in the *Index*. We multiply those hours by that amount. So there is a real science behind this. I'm not sure if it's as good as Zoltan's formula (more on that later) – we'll see.

I also want to say that last year we began working with the Urban Institute, which examines the 990s of some four thousand organizations that report giving internationally, and we began drawing our numbers for private giving from them as well. Prior to that, we had been using a limited list from U.S. AID of about five hundred organizations. This change doubled our number. So we now think that this charities number – private and voluntary organizations – is a much more accurate number.

And by the way, for the religious giving – that's our worst number, because churches and other religious organizations have not done surveys of their overseas giving – they haven't broken it out separately. They don't even usually keep a lot of records on their domestic giving. So we essentially got that number by just calling up large churches. It's in no way representative. But right now, Notre Dame is conducting a random nationwide sample, and we've added questions onto their sample, and so we're hoping that that sample has turned out well. And if it does, and they can extrapolate, we should have a huge number – if it's a good sample.

(Pause in the conversation. Zoltan Acs proceeds to the podium to present his paper without introduction.)

ZOLTAN ACS: Let me tell you how I got into this, because I know nothing about philanthropy – or didn't, certainly, before I got involved in this. I knew something about entrepreneurship because I had been studying it for a year. I used to work for the Small Business Administration

(SBA) in Washington, and I had a boss named Jerry Glover (ph). Jerry was a tough prosecutor, but a nice guy. One day in a staff meeting Jerry said to me, “Zoltan, I’d like you to devise an entrepreneurship policy for the United States.” This is what started me thinking. If we have a society where we allow people to get rich – and let’s say that mechanism is entrepreneurship, which I won’t define because all of you know what it is, or you know it when you see it – how is it that that fits into a pluralistic democratic society? Indeed, what kind of policies may in fact help us understand how this works?

Well, I was up in New York visiting a friend of mine, and I told him about this. His response was, “Zoltan, you have to study philanthropy. That’s where all the money ends up.” And so, I started reading about philanthropy, and I realized immediately that this was something I had never – I mean, other than knowing foundations existed because I had been trying to get money from the Ford Foundation and the like all my life (laughter) – but I never really thought about this. And the more I read, the less I understood.

I started going to meetings, and I ran into sociologists talking about how to help the poor, and that just wasn’t very helpful to me. I went out to Indiana University and visited their program; that didn’t help either. It wasn’t until I started talking to entrepreneurs about philanthropy that I started to get some insight. It makes sense, they said; entrepreneurs create wealth and then they give it away and create foundations. I realized that entrepreneurs understand, whereas people on the other side of the aisle do not.

I went away and did some more work, and I realized that I had to start thinking also about where the United States came from. There’s a great deal of literature on whether you look at why the Pilgrims came over or why the country was founded – all of this – but I was particularly interested in the literature on American exceptionalism – Seymour Martin Lipset was one of them, and the travelers’ literature, Tocqueville and others. They argue that America is not better, but it’s different, that our institutions are different.

And the more I read, the more I realized that there is this debate in the United States going way back that I had not been aware of, a debate about wealth. On one hand, there was no debate, no apprehension – that’s not the right word – about *making* wealth. Making wealth was okay. In the United States, you didn’t need to get permission to create wealth; you didn’t need a license from the king; you didn’t need some sort of authority. And I sort of knew that. But on the other hand and what I didn’t know is that there was a large debate in this country about *what to do* with wealth. Once you acquire it, what can you do with it? My friends the entrepreneurs told me that if you make the money, you do whatever you want with it, but I knew that there was more to it. You can’t take the money and go build a castle and retire. That’s not what the United States is about. You can do that in England or France.

I started putting the literature together in a research project on entrepreneurship and philanthropy in American capitalism. And the issue was, what is different and unique about American capitalism, and can we explain it in part by looking at entrepreneurship and philanthropy, or what I call the creation of wealth (entrepreneurship) and then the reconstitution of wealth (philanthropy)? No other country that I know of thought that these were important issues. Entrepreneurs have been essential for innovation and job and wealth creation – we all sort of

know that. Much of the new wealth that has been created historically has been given back. But there is really no evidence that I know of that traces every dollar over every time period. What we have are stories. The Rockefeller story is interesting enough, for one; he was one of the wealthiest, and gave back 95 percent of his wealth before he died. Sure, he kept 5 percent, and that was a lot of money, but he gave a lot of it back.

So here's what I ended up arguing in this line of research – and I still think it's valid: this reconstitution of wealth that goes back to build up institutions has a positive feedback on future economic development. The two parts of this thesis are, one, that you need to tie together entrepreneurship and philanthropy, and two, if wealth is reconstituted it has a positive feedback effect. In other words, it'll lead to more development and more growth.

The next piece of this is, where does growth come from? Basically, in the last twenty years economists have developed this endogenous growth theory in which knowledge is what creates economic growth. The knowledge that we create today can be used as a window to look into the future and decide what kinds of goods and services do not exist that can be created today – you find this in the entrepreneurship literature called “window of opportunity.” So both accumulated knowledge and new knowledge are ways in which we can think about the future and how to move into that.

In the global economy, you really have always one country that leads in terms of GDP or however you measure it, and every other country follows. For most countries, the game is, how do we catch up with country  $x$  because our GDP is only 50 percent of theirs? The catch-up game is not that hard because you know what you have to do. The difficult part of the game is inventing the future, because some country has to come out in front and say, we're going to do  $x$ . This reminds me of the old socialist joke: Why can't you have socialism in every country? Because you need one country to set the prices. (Laughter.) So every country can follow, but you need one country to lead. I don't have to tell you the story about Japan, which basically according to some was at parity with the United States in the late 1980s and Lester Thurow predicted that they would take over the world. But the Japanese didn't know how to lead; they didn't know how to take that step and invent the future. That's my interpretation of what happened, by the way. There are a thousand books on it and nobody really knows, but I think there's some truth to what I just described.

The twentieth century was the century of socialism. It was the century when we basically thought that the entrepreneur was eliminated. Countries outlawed them. We shifted from markets to planning. And even the United States and the United Kingdom and other countries that had this entrepreneurial past thought in second half of the twentieth century that all of this was gone, but at the very end of the century we had this reemergence of what I call entrepreneurial capitalism, or what my friend Carl Schramm, with Robert Litan, call “good capitalism” – versus “bad capitalism,” but I don't think that really helps.

What are the strengths of American capitalism – what is it that allows us to invent the future? People always hate this, but I say, what matters is what the best and the brightest do. What the others do is okay, but it doesn't make any difference. So if your best and your brightest are not motivated and incentivized to become entrepreneurs, you won't have an entrepreneurial society.

And in some countries the incentive structure is such that they don't do that. I tend to focus on the role of new business start-ups in this process, but it's not necessarily true. Investment is important, too. But someone has to identify these opportunities by looking into the future.

Now, I always show this picture (see below, from Zoltan Acs' PowerPoint presentation) and people say, you should show the *pictures* of the people who started the companies. And one could do that, but everybody recognizes the logos. These are entrepreneurial companies that were created in the last twenty years. All of them were new. They were all started by entrepreneurs – except that Bill Gates says he was a technologist, but that's all right. And they all created billions of dollars. Kids became billionaires. And the question you need to ask is, why do we allow that? Some of them were immigrants, and we allowed them to become billionaires. Immigrants can't become billionaires in France; the French won't even give them jobs! (Laughter.) These are just from the last twenty years, but I could show this for different time periods, for the last century and the century before that. Entrepreneurs went out, created companies, and created huge amounts of wealth.



Now where does philanthropy come from, and how does it fit into this picture? Like I said, what I know about philanthropy even now is sketchy, and I always like to let people know that. Take it with a grain of salt. But what I say I've tried to research.

Philanthropy has deep roots in the United States. It has been here for a long time. The real founders were the early men and women who came over. They all had these views about wealth that were different from the views of those they left behind. John Winthrop basically saw this and he talked about it in his lecture, "A Model of Christian Charity": industry, frugality, and humility. So in some sense, philanthropy is a secular vision of the Puritan doctrine of the stewardship of riches.

Philanthropy is part of an implicit contract that underpins the American Dream. And what I mean by that is, again, the American Dream is that you can get rich and – I never like to say that you can't keep the money, but the truth is, you have to do something with it. You can't build a castle.

Now, if you trace this back to the person who tried to set up the legal structure, that was George Peabody. George Peabody was a financier, a merchant, and a trader. He lived in Baltimore. He amassed a huge fortune, and gave it all away. He's the individual who set up the structure of the foundation that was then followed by Rockefeller, Carnegie, and all of the others. It was debated in Congress, and passed. And it was at that point that the United States decided what we should do with wealth, and what is an acceptable use of wealth in this society.

The next person who followed very closely was Johns Hopkins, who made a lot of money on the railroads. On his deathbed, Peabody visited him and advised him to give his money away. And so he took \$8 million and created Johns Hopkins University. He gave half to the school and half to the hospital. And it went on to become the first research university in the United States and, some would argue, the best research university in the United States. For those of you who went to MIT or Stanford, I know you don't believe that. That's okay.

Now, the twentieth century was a funny century. There was a crisis in the early part of the century. There were wars. There was depression. You had the role and the emergence of the government. And the twentieth-century vision was that philanthropy and individual initiative was going to have a lesser and less-important role, and basically that government was going to take over these sort of services. And one of the issues that emerged was, would the philanthropic contributions of Americans continue once the federal government grew? And in a very interesting Brookings study in 1970 – they actually went out and documented all of this, they found out that as the federal government's expenditures went straight up, philanthropy stayed steady. In other words, people continued to give money.

But to what? There is a quote, I think from *Newsweek*, that captures the spirit of what is going on: "Other countries may be content to have the government run most of their schools and universities, pay for their hospitals, subsidize their museums and orchestras." Americans tend to think that these institutions should be in private hands and are willing to pay for it. So over a very long period of time, Americans have continued to support a dual system and pay for it, and where that system is the clearest and where you can actually see its impact most effectively is in the university system.

We are the only country on Earth, that I know of, that has a dual university system – half private and half public. In Germany, they're all state institutions, and when you become a professor they actually put it in your passport. It's a stamp that says, "Herr Professor." Why is it there? You are a member of civil service, and you have a statutory responsibility in society that is consistent with the goals and the mission of the state. So your role in society is different than if you worked for a private university and you sit around like some of us do and try to figure out what you should research next.

At private institutions, nobody comes and tells you. Last summer I was down in Nice at a conference on entrepreneurship. And the French Minister of Industry said in his speech that

France was going to embrace entrepreneurship. “We will decide who can be an entrepreneur,” he went on. (Laughter.) Research works the same way; nobody tells a professor, go do this. The problem with being an assistant professor is, you don’t know what to research. Your department chair doesn’t come to you and say, this is what the government wants done. It’s individual initiative.

So this entrepreneurship-philanthropy nexus, I argue, is one of the foremost institutional underpinnings of American society. Wealth creation happens automatically, because we allow the entrepreneurs to keep the wealth, or we give it to them as a reward so people will do this. What’s interesting and is more complex is the reconstitution of wealth, because that, again, is voluntary. There are pressures. I’ve always argued that the reason Bill Gates was sued is not because Windows was a monopoly; nobody cared about that. It worked. People went after him because he was making a lot of money and wouldn’t give it away, or hadn’t thought about it. As soon as he started giving it away, people stopped bothering him. Windows is still a monopoly. Now, you may think that that’s not the case – but if you think about it, it happens over and over.

Now, what do we want the reconstitution of wealth to do? If we believe it leads to higher growth and development, what we want is greater participation. So in some sense, the goal of the reconstitution of wealth is to create opportunity for everyone. There are people of talent, skill, and knowledge in all levels of society. And what the Founding Fathers realized was that if you limit that to a certain class, you forego the potential from the rest of society. And that is what the goal of philanthropy is.

So, the entrepreneurship-philanthropy nexus is about wealth creation and wealth reconstitution. But how do we close the model? This is what’s interesting – this is a part of American exceptionalism. There are three ways to close it, that I know of. One is the class system, and by that I mean that the wealth can keep the money, build castles, and retire. This is what happened in England after the Industrial Revolution. If you travel around the country, it’s full of castles. All the rich went and built castles and retired. And they sort of withdrew. Why did they do that? I think that they were following the other rich folks who had been there, and they thought that that was the way to do it.

The second way to close the model is state capitalism. State capitalism is what everybody in philanthropy tells me should happen – the state should get the money. And so we should tax these people, take the money, and then the state will figure out what to do with it.

The third way, characteristic of American exceptionalism, is philanthropy. It’s not something you have to do, but it’s an unwritten contract that wealth has to be reconstituted. Exactly how it happens I don’t know, but people write about it and talk about it all the time. It just sort of happens.

Now, someone said to me, Zoltan, now you have to prove it. So I did two things. I did a study looking at Sweden and the United States. They’re similar countries. (See Table 2 below.)

Table 2. Research and Development (R&D), volume of donations, its share devoted to research and education, and the source of donations in Sweden and the U.S., in percent, 2001

	Sweden	USA
R&D as share of GDP	4.3	2.8
The private sector share of total R&D*	72	68
Share of total university research financed by the government	78	65
Donations as share of GDP	<b>0.3</b>	<b>2.4</b>
Share of private donations spent on research and education	<b>approx 25</b>	<b>approx 30</b>

One difference is that we give about 2.4 percent of GDP in some sort of contributions. The Swedes, if you run it, it goes to zero. They don't give any, and if you ask them, they say, well, that state does all this. So we're unique. Now, how big is this number – 2.4 percent? It may not seem that big, but it's about the same amount of money we spend on research and development. So if you look at it that way, it's not that small. It's a large number, and we give it every year. The number never goes to zero. Every year we do that.

Now I'm going to skip this (referring to his next PowerPoint slide, see below, right) –

CAROL ADELMAN: No, please don't – that's what I wanted to hear about!

ZOLTAN ACS: Oh, well, okay! So I took a basic production function. Output is a function of capital and labor. This is an (inaudible) production function from Robert Solow, you know? (Laughter.) This is the change in growth, and it's going to be a function, basically, of the change in capital and the change in labor. These are the things that can help us explain growth. What I want to estimate in this is, does the change in philanthropy have any impact on economic growth, holding these other things constant. And this is Brookings' data – I didn't make this up. And I ran these regressions, and you can see that total private philanthropy is a positive, significant variable.

Figure 4. Philanthropy and Growth Over Time in the United States

$$Y = AK^\alpha L^{1-\alpha}$$

$$\frac{\Delta A}{A} = \frac{\Delta Y}{Y} - \alpha \frac{\Delta K}{K} - (1-\alpha) \frac{\Delta L}{L}$$

$$\frac{\Delta A}{A} = \beta_0 + \beta_1 \frac{\Delta P}{P} + X\delta + \varepsilon$$

$$\begin{cases} H0: \text{Not } H1 \\ H1: \beta_1 > 0 \end{cases}$$

Now, for those of you who know anything about statistical work, this has a zillion flaws. All sorts of things are wrong with it. We can spend three days talking about why this simple

regression can be misleading. But it didn't come out insignificant, and if we do an annual – there's a lag here – but it comes out significant. And if you look at employment – civilian employment makes a difference. The patent (inaudible) came out insignificant, but it's a funny time period.

Now I just did one more simple test and lagged this twenty years to see whether it will still be significant and therefore probably spurious, but if you look at it over twenty years, by twenty years it becomes negative and insignificant. So something is happening with this money that is explaining income growth in the short term – one to five years. Again, it's a very simple test, but it comes out positive and not negative.

Does that help? Okay.

So what happened in the last half of the twentieth century? A lot of people got very rich. You don't need me to tell you that – you already know this. I recommend a book to you that just came out called *Richistan* (Crown, June 2007) – has anybody read it? It was written by *Wall Street Journal* reporter Robert Frank, and it's about all of money people have made in the last twenty years and sort of what they are doing with it and who they are. If you want to look at the income going to the top 1/10 of 1 percent, it went from 2 percent to 6 percent of GDP, and then in the last wealth cycle it shot up to 12 percent. So we're halfway there. So this is out there, and there are a lot of rich people who have made huge amounts of money. And not a lot of them have taken to philanthropy.

When I started this five years ago, nobody was talking about philanthropy in this sense. People were talking about management and so on and so forth. And now books are coming out almost every day – Clinton has just written a book on giving. And so this is just very topical.

CAROL ADELMAN: Why do you say that few of them have taken up philanthropy?

ZOLTAN ACS: Because about three years ago there was a debate about the fact that not enough of the wealthy are becoming philanthropists. I don't have enough information to know if that's really true or not. But I also know this: it's not a one-year issue, right? It's a much longer-term thing. It's very difficult to say whether or not someone next year will give money away. I actually don't know whether it's really just a few or a lot. I do know one thing – the number of foundations has gone up remarkably. So something is happening.

What are some of the new rich doing with their money? The Getty Center is one example – this huge museum that is free to the public. And we can look at the Gates Foundation and the Soros foundation. All of these people have had a mission and a view.

So, where I've gone this is that I try to ask a question. If I just look at wealth creation and wealth reconstitution, the model is not clear enough. And in order to complete the picture, I think, we need to talk about opportunity – specifically, we need to talk about opportunity for entrepreneurship. Why do we need philanthropy, and what should philanthropy – broadly – be doing? Philanthropy should be creating institutions that increase opportunities for

entrepreneurship. If people want to become entrepreneurs and create wealth, it should be possible for them to do that.

So this whole issue of opportunity, I think, becomes central, and it's consistent with both the history of the United States and with an awful lot of legislation – with equal opportunity, etc. So to me, one way to think about this is, if people have the opportunity to be entrepreneurs and you reward them, they'll create innovation. They'll become successful, wealthy entrepreneurs. They'll reconstitute their capital back through philanthropy, and then that philanthropy is used to create opportunity for others. Education is a part of this, obviously.

Figure 5. From the Entrepreneurship-Philanthropy Nexus to the Entrepreneurship-Philanthropy-Cycle



“The process by which agents transform knowledge into wealth through entrepreneurship and growth, and then reconstitute wealth into opportunity for all through philanthropy.”

Acs and Armington, 2006, p. 20

Now, what do I mean by this quote (above)? Well, it gives you a way to think of this that is coherent and you can try to then figure out how to actually make this work. Now, there are different levels of actors in society that fit into this. There are individuals who have to make choices to be entrepreneurs. There are then businesses, and the way they interact with society is through innovation. Then there are economy-wide policies to support this, and then there are social policies.

For individuals, there are normal, public-policy things we can do: You want to make it easy to start businesses. You want to ensure access to finance. You want to protect property. And you want to have a sensible tax policy. At the national level, the things that hurt entrepreneurship or prevent people from wanting to start businesses are things like health insurance. Lack of educated workers. Litigation issues. I was at a big conference at the Commerce Department a few weeks ago, and that's all they talked about.

I would argue that the part of this we have focused the least on is the social policies. Social policy should be about creating opportunity for people to be entrepreneurs, and philanthropy, I argue, is at the heart of that because that is where wealth gets reconstituted to do this.

Table 3. The Entrepreneurship-Philanthropy-Cycle

<b>Levels</b>	<b>Occupational Choice Policies</b>	<b>Enabling Policies</b>	<b>Social Policies</b>	
<b>Agent</b>	More Effective Entrepreneurs			
<b>Business</b>		Continuous Innovation		
<b>Economy</b>			Faster Economic Growth	
<b>Society</b>				Equal Opportunity

Table 4. The Entrepreneurship-Philanthropy-Cycle

	<b>Goals</b>	<b>Targets</b>	<b>Instruments</b>
<b>Agent – Occupational Choice Policies</b>	More Effective Entrepreneurs	Individuals	- Create awareness - Entrepreneurship training - Facilitate networks
<b>Business – Enabling Policies</b>	Continuous Innovation	New Firm Formation	- Finance - Regulatory relief - SBIR - Science parks - Tech. comm.
<b>Economy – Supporting Policies</b>	Economic Growth	Institutions - Universities - Government - Corporations	- Education - Venture capital
<b>Society – Social Policies</b>	Equal Opportunity	Wealthy Individuals	- Philanthropy - Taxes - Social pressure - Legal structure

Let me finish, then, on four points. I was at a conference, and a gentleman who had heard my talk came up to me and told me that Rome had the same thing – all of the rich people in Rome became philanthropists, and that’s how those great buildings were built. And so I looked into it, and I found a book on philanthropy in Rome with data and numbers. And it showed that when philanthropy declined, the country went to hell and it was invaded. Now, I’m not an ancient historian, but it was interesting that you can go back that far and find similar trends.

What you know more about than I do, I’m sure, is the amount of wealth that will be inherited in the next couple of decades – it’s just huge, trillions of dollars. What will happen to that? How will that inherited wealth be reconstituted? I think that’s a huge and interesting issue. That

reconstitution will determine, I think, what the twenty-first century looks like. It's not going to be war. It's not going to be trade or anything else. It's how the billions and trillions of dollars in the United States and other countries, if that wealth is properly reconstituted, will shape the twenty-first century – to a large extent like the reconstitution of wealth helped shape the twentieth century in the United States.

And the last point I would make is that this American model is a promising way to think about the global society, as Carol (Adelman) described. How do we deal with countries where income distribution is an issue, where wealth concentration exists but yet opportunity doesn't exist for individuals. This whole idea of the reconstitution of wealth, doing it in such a way that it build the future and helps create a better society, is I think one of the most promising areas for thinking about foreign and domestic policy and diplomacy.

Now, I've said a lot of unsupported things and made a lot of claims, so I will stop here. Thank you very much.

(Applause.)

WILLIAM SCHAMBRA: Questions from the audience?

BRIAN HAMLIN (ph), George Mason University's School of Public Policy: It's a rather *uncontroversial* idea that philanthropic giving has had a positive effect on future wealth. Johns Hopkins University is clearly the primary economic engine in Baltimore – there's no doubt about that, and there are many other examples. But do you have any evidence to suggest that that model of wealth reconstitution leads to greater wealth than, say, the state capitalism model you outlined, where through higher estate taxes the government could invest that money in health, education, and other things?

ZOLTAN ACS: That's a great question. I wish I could say that Europe is a good example, but the problem is that Europe hasn't been creating wealth, so there's nothing to reconstitute. So I can't use that as an example. And so the answer is, I don't have any evidence. But I do know this. When you talk to wealthy individuals and you ask them, they will say to you that they are strongly opposed –

BRIAN HAMLIN: Of course they are! They don't want to pay higher taxes.

ZOLTAN ACS: But then the question is, why? And the general answer is given by my friend Carl Schramm, who runs the Kauffman Foundation. According to him, what is unique about the American philanthropic model is that the decision about what to do with the wealth is independent from both the market and the political process. So, in other words, if you give it back to the government, the government pretty much knows what it has to do with it – reduce the deficit and fund Social Security and Medicare, or maybe fund more of the Iraq war. So the argument is that you have a greater degree of freedom to do things in that model that you couldn't do otherwise.

So, that's the theoretical argument. To try to empirically demonstrate it is difficult. Now, you can argue that the higher rate – because here's the question that I asked when I got started: Why is it that the United States over three hundred years has outperformed more or less every other country? It's more or less true – through wars, famines, invasions, and all kinds of things. What is it that underpins it? This is the conclusion I came to. There are lots of other reasons, but ultimately the answer to this is that the money is reconstituted in a way without constraints.

MARIKA ROSEN, French-American Cultural Foundation: I have a very self-interested question here – I'm interested in a piece of your argument. Obviously the idea that philanthropy encourages entrepreneurship is very interesting. But if you look at George Soros and Bill Gates on one side, and the Getty family on the other, I think it's easy to understand how Soros and Gates are creating a new generation of entrepreneurs through investing in education, health, democracy, and human rights. But with the Gettys' cultural investment, does that fit in with this idea that this also helps create entrepreneurs? If so, how?

ZOLTAN ACS: The question is, do the different types of entrepreneurs that reconstitute capital all equally contribute to entrepreneurship? And I think you want to rephrase the question – do they all contribute to the *opportunity* to become entrepreneurs, or in other words, do Gates, Getty, and Soros equally make America a more inclusive society, if that's the goal? And that's a difficult question to answer. (Laughter.)

Looking at it another way, you could ask, does the Getty Center not contribute at all? Well, Carnegie's libraries contribute. The idea was that you wanted to create educational opportunities for all. So I think it's difficult to answer that. But I also think that it's fair to say that the answer is, no.

This is a spectrum, and this is a democratic society. And in this country, on the one hand, you've said that you can be an entrepreneur and you don't have to ask for permission or about what you want to create. It's up to you. Nobody says to you that you can or can't be an entrepreneur, and nobody says to you, if you want to be an entrepreneur you have to work on biotechnology. The flip side of that is, if we give you the freedom to create wealth, we then give you the freedom to reconstitute wealth.

Lots of entrepreneurs create crap – we know this. Right? They do all kinds of things, and a lot of it doesn't work. So if we're going to say, you can create wealth and then you can reconstitute it, we're going to basically say that some of it will be more valuable than others. So what Bill Gates does some will argue is very valuable, and some will argue that what the Gettys did was marginally valuable. It's a free museum. We have lots of museums. But we don't have a lot of Windows operating systems. Could we pick those people *a priori*? No. That's what the French want to do. They want entrepreneurs, of course – but they only want to support the entrepreneurs who are going to create wealth. Well, me, too – but try to figure out how to do it!

So, they're not all equal, but we can't force them to be equal.

DARREN BEATTIE, Hudson Institute: This might be difficult for me to phrase, but I'm a bit confused as to the relationship between reconstitution and philanthropy per se. It doesn't seem to

me that that is a necessary relationship. For instance, you said that money generated, if reconstituted in an efficient, proper manner, can contribute greatly to economic growth – which is true, and you give the example of Carnegie’s reconstituting wealth into educational institutions that promote human capital and whatnot. But is it a question primarily of philanthropy, or is it a question primarily of reconstituting money in an efficient way, which is to say the worst case being to stuff it under your mattress, and slightly better but still not very good, to build a castle? It seems to me that to reconstitute your money in a *nonphilanthropic* but efficient way, say to invest it in a company that turns out to be the next Microsoft, would be equally viable in terms of economic growth. I was hoping you could expound upon that.

WILLIAM SCHAMBRA: If I could just build on that question for a second – because it really is a terrific question. Why do you choose philanthropy and foundations as a way to reconstitute wealth when in fact many of the people who run those foundations understand themselves to be explicitly undoing capitalism? One could argue that several of your examples of recently wealthy people who have gotten into philanthropy – Soros, Turner, and to some degree Gates – are not only *not* interested in encouraging entrepreneurship, but are interested in bringing about a state of affairs –

ZOLTAN ACS: A more equal (inaudible) - yup.

(Cross talk.)

WILLIAM SCHAMBRA: So why wouldn’t you say, forget about foundations – let’s just go to some more efficient way of reconstituting wealth rather than turning it over to people who in many cases are actually opposed to the reconstitution of wealth? The reconstitution that does happen, as it were, is almost by accident; I think you said, “It just sort of happens.” Why can’t we, as good capitalists, be a bit more efficient in that?

CAROL ADELMAN: May I just –

ZOLTAN ACS: Well, okay –

(Cross talk.)

CAROL ADELMAN: May I just also add to that just for a second? (Laughter.) It’s extremely important. I just want to add that Gates said in a speech recently that his contributions would be greater through the Gates Foundation than what Microsoft has done in the world. And then you have Robert Barro’s commentary on that, showing what Microsoft has done in terms of job creation, employment, capital – (“Bill Gates’s Charitable Vistas,” *The Wall Street Journal*, June 19, 2007)

ZOLTAN ACS: It’s huge.

WILLIAM SCHAMBRA: Right.

ZOLTAN ACS: (seeing a hand waving in the audience) Okay, go ahead!

QUESTION: This is a little bit confusing, but also you pointed out that the antitrust monopoly of Microsoft. So is your argument then that Bill Gates wouldn't have created the Bill & Melinda Gates Foundation if they hadn't been, and they would carry forth this philanthropy?

ZOLTAN ACS: Let me answer your question first, because it's actually the easiest one! (Laughter.) I find in the literature that this is an implicit social contract. How it gets enforced is not necessarily legal. It's like, in polite society you don't wear shorts to a dinner party. If you do, they look at you until you leave. What all of these subtle pressures are that do this, is again an area that people don't talk about, but they're there – the pressure to give back.

Now, these three questions are all really interesting, and you all have made it difficult to answer because now there are three of them instead of one. (Laughter.) But at the heart of the question, if I can do this right, is, is this system efficient? Let me go back and ask it differently. Do we want to have entrepreneurs creating wealth? That's a great question. And we answered that in the twentieth century in the negative. We did not want entrepreneurs creating wealth. In Russia, they shot them. In Europe, they outlawed them. And Schumpeter thought that they would disappear. So in some sense, the whole issue of wealth was taken away from individuals. I mean, what was the difference between capitalism and socialism? Private property. We take it away from people and we give it to the state. So what we're pushing against, I think, is not whether this method of capitalism or this method of entrepreneurship or this vehicle for philanthropy is most efficient. What we're pushing against is a society that says wealth does not belong in the hands of individuals.

Once you phrase it that way, you need to answer three questions. How is wealth created, if we allow individuals to do it? Entrepreneurship is one mechanism. There are others. Two, once individuals have created wealth, does society care what happens to that wealth? I think the answer is, society does care. And then three, if we care about what people do with their wealth, what do we want them to do with it? And we're thinking about that right now. What did we want Bill Gates to do with his money? What do we want these other people to do with their money?

If you go back to the last century, what did the rich do with their money? They basically created a system of institutions to correct market imperfections. Everybody knows that a capitalist system creates inequalities. If I'm going to let you become a billionaire, that's okay; it doesn't mean you made us worse off. But you're a billionaire and you're different. If we like that system, then we need to think about how we now come up with a system in which we're happy with that, and so we have some sort of a whole.

So, I don't think philanthropy is the only way to do it. That was invented in this country a hundred years ago. Was it a good idea? I don't know. Are there better ways to do it? I don't know the answer to that, either. But my message is, this is what we have. And it appears to work. There are a lot of flaws, but –

Now, the issue of investment. Remember that this is money that can't be invested in business because there is no opportunities there for it. This is not a business issue. If you want to invest in business, lots of people have money to do that, and it's straightforward. This is partly about

inventing the future. It's about investing in things where there is huge uncertainty, and neither the market nor the state will fix it.

Let me give you an example. I don't know what you think America's greatest social problem is. We could take a poll. But I know one of them. I live in Baltimore, and when I turn on the television news every night, I learn that two more people have been murdered. And they didn't kill them in Ruxton, where I live; they killed them in some small area. In the District of Columbia, it's almost the same. What is going on? Well, we know what's going on. The social institutions in the inner cities have broken down, and the incentive structure is to go out and do drugs and shoot people, and other things.

And I would argue that the market and the state have no solution for that. The market is not going to solve it because it's an incentive structure issue. And the state is not going to solve it. When you go to Annapolis and talk to the legislators, they say, "Oh, Baltimore – ach! Let's talk about Montgomery County." And the state is not going to solve it because the voters aren't going to put the money in to solve it. So philanthropy becomes a vehicle to deal with those issues. And the Soros foundation spent \$200 million trying to solve these in Baltimore. They were trying to teach people how to go to work, basically. Civilization sort of breaks down in these places.

So foundations and philanthropy need to do things that the market and the state aren't doing – or can't – but they're necessary for society to grow and function.

So that's a long-winded answer to a very good question.

DIANA FURCHTGOTT-ROTH: What if the Soros foundation had started a factory in Baltimore? Then they could have employed these people.

ZOLTAN ACS: Well, you go back and look at the history of social policies, a lot of the original capitalists-philanthropists did things like that. They built factories and housing and tried to be nice to the workers. There were all sorts of social experiments. What the social experiment is that would help, I have no idea. But neither does anybody else. Soros tried one thing, but they're still shooting people. These are all things we don't know the solution to. If we knew the solution, it would be easy. So we have to experiment, to try to figure out what will and won't work.

Gates is working in the field of global health – it's very interesting. People die of really simple things because no one develops medicines for those things. Will that make the world a better place? Yeah. Will it make it a safer place for entrepreneurial capitalism? Probably, if he succeeds.

So to me, when I look at the bigger picture – well, here's a question: Should philanthropy today be focused on the United States, or globally? In the last century, it was focused locally or within the United States because there were so many problems. Education, health, literacy, all of those. If you look at the world today, we have some of those problems still in the U.S., but not that many. Many of those problems are overseas. It's a global issue. So in one sense, there's the question of whether this money should be spent globally – to try and make the world a better place. As Carl Schramm argues in his book *The Entrepreneurial Imperative* (HarperBusiness,

2006), if we can't make the world a better place, there's no future for American entrepreneurial capitalism. I don't know if I believe that, but what is the rest of the world going to look like, and how do we make it a place that from a systemic point of view *works*?

WILLIAM SCHAMBRA: In lieu of a question, if I may make just a quick comment about one historical sort of nuance here. Zoltan, you suggest in your paper and in your presentation here today that whereas the nineteenth century was a period of private-sector treatment of social problems, the twentieth century was something of an exception. However, it should be pointed out that many of the early philanthropic institutions that were established by those capitalists at the end of the nineteenth century – those capitalists understood themselves to be creating a new world in which indeed the state would be much more powerful. These universities and research institutions were built to train the experts who would take the guesswork out of capitalist expansion. We would now train experts in all aspects of social enterprise, the economy, and political science so that we could turn public affairs over to the experts, and they would choose the winners and losers. So it is not entirely the case that we mysteriously fell into the twentieth century out of the golden era of the nineteenth century. Rockefeller, Russell Sage, and others of the capitalists established institutions that actually promoted that fall away –

ZOLTAN ACS: I totally agree.

WILLIAM SCHAMBRA: So one is left with the question about the new rich and their understanding of a now global situation. Are they in fact going to push us into global institutions that may be every bit as problematic as some of those institutions that were created by the early capitalist manifestations, the foundations of the twentieth century.

ZOLTAN ACS: I don't have any answer to that. That's a great question. And here's really what puzzles me. I stumbled on this by accident. Do you know how I stumbled onto this? During the late 1990s I was giving lectures all over the world, and everybody wanted to know about the American high-tech revolution. Everybody wanted to know how Silicon Valley works. And I'd tell people to think about the different types of capitalism. There's the Swedish model, for example. Most people I talked to were familiar with the Swedish model. And there's the Japanese model, and people would say, oh, yeah, we know about the Japanese model. And then I'd ask, what's the American model? And there would be dead silence until some guy in the back jumped up and exclaimed, "Cowboy capitalism!" And I had 'em – I had tricked them. And I'd say, look, even Americans have difficulty understanding their own system. There are different views of it. But if you want to understand why America took the lead in the late half of the twentieth century in technology innovation, entrepreneurship, growth, and ultimately wealth creation, you have to go back to the nineteenth century.

What is the main institution in the United States that drives the entrepreneurial revolution? I'd ask. It never took long before someone would say, Stanford or M.I.T. or Johns Hopkins. But when I'd next asked where those institutions came from, people thought that the state had created them. And so I'd say, no – entrepreneurs created them. And I'd tell them a story – the Rockefeller story, the Hopkins story, the Duke story – there is one for almost every private university, and they're all really interesting. Carnegie-Mellon's story is my favorite. The floor

slopes in that university, and Mellon said that if the university thing didn't work out, they'd put machines back in and make it a factory.

I argued that the economic success of America in the late half of the twentieth century was partly founded on the investment or reconstitution of wealth at the end of the nineteenth century. These institutions that we've built up, these great universities, don't really exist in other countries. Why? There are all kinds of reasons. They don't get funded. If you look at the endowment of Stanford, it's \$20 billion. The Germans just set up an endowment for universities, and they put in \$50 million. For the whole country! So that's why I started.

Now, what surprises me is that these two subjects are almost never discussed. Even today, to get people to talk about these two subjects together is rare and hard. And I know why. People who study entrepreneurship are in business. People who study philanthropy are basically, I think, sociologists. But you can study this from all sorts of disciplines – psychology, history. And I actually think there is a dearth of research on this.

Now, I may be wrong. Maybe I just made all of this up, and it's all anecdotal and all of you think that there's really nothing to it; it can all be explained in other ways. And you can. But I think I'm right.

WILLIAM SCHAMBRA: Our last comment will be from Carol Adelman.

CAROL ADELMAN: Zoltan, I think we have a lot of data in our *Index of Global Philanthropy* to support what you're saying. I do think there has been a shift certainly over in private giving to developing countries in the type of philanthropy that's going in. And as I was saying before, there has been an explosion in what is called venture philanthropy, philanthrocapitalism, and microfinance. You can see it in the business schools – every business school now –

ZOLTAN ACS: Has a program in this, yes. It's new.

CAROL ADELMAN: Yes, it's all new – within the last five years. And these are really direct ways. I was talking about e-philanthropy, which is booming and cuts down transaction costs. It was started by businesspeople. So I think that this is certainly playing a role in overseas philanthropy. Plus you have the development of local philanthropy. United Way International is now funding the high-net-worth individuals in Kenya and Tanzania and the new businesses that are starting. So I think you may have a bit of a laboratory to be looking at in these developing countries, to see whether this influx is making changes in economic growth. Because certainly foreign aid hasn't affected economic growth.

ZOLTAN ACS: Right!

CAROL ADELMAN: You'll have a good, flat baseline there. You'll be able to see. So I think it's very exciting, what you're doing, and I thank you for coming.

QUESTION: You were saying about the business schools – it's only been in the last twenty years that the nonprofit focus has started up in the public policy schools, the Kennedy School and nationally.

ZOLTAN ACS: Yes, it's all recent.

CAROL ADELMAN: Right.

WILLIAM SCHAMBRA: Very good! Well, we've arrived at just after two o'clock, so let's end by thanking our panelists for a great conversation.

(Applause.)