

## **D3 | CONFLICTS OF INTEREST WITHIN PHILANTHRO-CAPITALISM**

The term philanthrocapitalism is used to describe a growing movement which aims to harness the power of the market in order to achieve social outcomes, to increase economic growth in impoverished regions, and to make philanthropy more cost effective.

This chapter explores the origins of philanthrocapitalism and addresses its increasing influence on global health governance and decision-making. It examines the functioning and priorities of the Bill and Melinda Gates Foundation in order to explore how the alignment of corporate interests and philanthropic investment may be having adverse effects on health policy. It looks at the efforts of the proponents of philanthrocapitalism to challenge progressive tax measures that could generate government revenues earmarked for global health. Finally, the chapter suggests that a focus on conflicts of interest could be a useful starting point for the mobilisation of health specialists who are concerned about the influence of the Gates Foundation on health policy, but who have thus far had difficulty, as a result of the immense scale of the Foundation's influence, in highlighting some of its controversial policies.

### **Spending priorities and governance of the Gates Foundation**

The Gates Foundation's influence on global health has become increasingly controversial among policy-makers. A first concern centres on the Gates Foundation's funding decisions. The Foundation directs the bulk of its grants towards organisations in high-income countries, thus exacerbating unequal R&D infrastructures between poor and rich regions. The Foundation has heavily prioritised funding for malaria and HIV/AIDs, while almost entirely omitting funding for chronic, non-communicable diseases from its portfolio. Recent studies have shown, as the editors of *The Lancet* write, that 'grants made by the Foundation do not reflect the burden of disease endured by those in deepest poverty' (Lancet 2009: 1577; McCoy, Chand and Sridhar 2009; McCoy et al. 2009; Sridhar and Batniji 2008).

Within areas that are targeted by the Foundation, such as malaria research, specialists have become increasingly vociferous in claiming that the policy advocated by the Foundation is often divorced from local requirements and needs (Kelly and Beisel 2011). Critics point out that the Gates Foundation-funded Grand Challenges schemes treat vector-borne diseases such as malaria as overly static, privileging instead vaccine and genetic-modification schemes,

which neglect the fact that malaria eradication in Europe was the result of environmental measures, such as the drainage of swamps and improved levels of sanitation, together with large-scale economic development (Birn 2005).

A second concern is the lack of public accountability at the Foundation, which is governed by three co-chairs – Bill Gates, his father, William H. Gates Sr, and his wife, Melinda Gates. The editors of *The Lancet* write:

Sadly, the Foundation has acquired a reputation for not always listening to its friends. Although it is driven by the belief that ‘all lives have equal value,’ it seems that the Foundation does not believe that every voice has equal value, especially voices from those it seeks most to assist. (Lancet 2009: 1577)

A third concern is that the Foundation both invests in and champions corporate actors that have had a detrimental impact on health outcomes. This concern parallels an underlying criticism of the Gates Foundation, which is that its main funding source, revenues accrued from Microsoft, was amassed through labour practices and monopolistic intellectual property strategies that are contrary to the stated health aims of the Gates Foundation.<sup>1</sup>

### **Corporate conflicts of interest**

The fields of medicine and public health have long been marked by an emphasis on the need for private or institutional actors to declare any conflict of interest, viewed as an affiliation, relationship, or connection that could corrupt the ability or undercut the motivation to act in the interest or the pursuit of a stated objective. Although conflict is obviously an intrinsic and often unavoidable feature of organisational life, legislation has sought to mitigate particularly egregious forms of conflict, such as the recent provisions included in the US health reform bill that mandate pharmaceutical manufacturers to file annual reports with the government about their financial ties to individual doctors and institutions (Singer 2009).

No similar provisions exist for private donors such as the Gates Foundation, although the Foundation must file endowment disclosures with the US Securities and Exchange Commission, and its tax status is contingent on a number of clauses, such as refraining from ‘self-dealing’, or financial transactions between a foundation and ‘disqualified persons’ such as board members, a measure intended to prevent private individuals from benefiting from a foundation’s resources.<sup>2</sup>

An established body of literature within the social sciences has examined the links between political power, funding sources, and investment decisions (Fisher 1983; Parmar 2002). Scholars have shown how intellectual enterprises such as think tanks have helped to increase the political salience of economic movements such as neoliberalism by furthering partisan viewpoints or by lobbying for partisan interests while maintaining a veneer of academic and political impartiality (Guilhot 2007; Mirowski and Plehwe 2009).

A recent article by David Stuckler, Sanjay Basu, and Martin McKee (Stuckler et al. 2011) builds on this literature through an analysis of the Gates Foundation's investment portfolio, exploring how institutional factors, such as links between Microsoft and the Gates Foundation, affect the spending priorities of the Foundation. The authors found that a significant percentage of the Gates Foundation's endowment is invested in private corporations that stand to gain from the Foundation's philanthropic support of particular global health initiatives over others. This is the first major study to document where the Foundation's endowment is invested, as well as to explore links between board members and private for-profit companies that have directly benefited from the Foundation's philanthropy (ibid.).

The Gates Foundation's endowment has two main revenue sources: Gates's personal fortune and the stock in Berkshire Hathaway given as a gift to the Foundation by Buffett. Over 10 per cent of the Foundation's endowment is invested in two companies: McDonald's (about 5 per cent of the Foundation's portfolio) and Coca-Cola (over 7 per cent of the Foundation's portfolio). Over half of the total endowment is invested in Berkshire Hathaway, which owns an additional 8.7 per cent of Coca-Cola and has considerable stakes in leading pharmaceutical companies, including GlaxoSmithKline, Sanofi-Aventis, Johnson & Johnson, and Procter & Gamble (ibid.).

The Gates Foundation's investment in Coca-Cola raises a number of concerns. Increased consumption of cola and other artificially sweetened beverages has been directly linked to the global obesity crisis (Schulze et al. 2004). Representatives of the Foundation have been increasingly vocal champions of Coca-Cola's marketing and distribution strategies. In a 2010 presentation at TED, a global forum that highlights the work of social entrepreneurs and philanthropists, Melinda Gates extolled Coca-Cola and suggested that global health policy-makers should seek to emulate the corporation's business tactics.

*Barron's*, a leading business journal, reported in January 2010 that Bill Gates had bought nearly US\$18 million worth of American depository receipts in Coca-Cola Femsa, a subsidiary of Coca-Cola, through both his personal investment vehicle, Cascade Investments, and through the Gates Foundation (Salzman 2010).

Stuckler et al. report that the Foundation has partnered with Coca-Cola in a four-year, US\$11.5 million partnership to enable mango and passion fruit farmers to participate 'in Coca-Cola's supply chain for the first time', thus encouraging local communities in developing countries to act as business affiliates of the corporation. This championing of Coca-Cola suggests that the Foundation may be using its influence to help financially bolster a company that has been linked to an increase in obesity and diabetes. Gates personally and the Gates Foundation in general are increasingly investing in Coca-Cola, raising questions about whether the Foundation is prioritising health partnerships that could privately benefit individuals chairing the Foundation.

A third concern is the human rights record of Coca-Cola, which has faced allegations that its company executives have conspired in the murder of union workers at its bottling plants in Colombia. In India, the company has been accused of contaminating groundwater and soil, causing water shortages, and having high levels of pesticide in its drinks. At least three high-profile US universities – New York University, the University of Michigan, and Rutgers – have banned the corporation from selling its products on campus as a result of allegations of abusing workers' rights (Woyke 2006).

The Gates Foundation's support of Coca-Cola is the most recent illustration of the tendency of the Foundation to invest in areas and in companies proven to have a deleterious effect on health and the environment. In 2007, the Foundation faced censure for investing in Dutch Shell, Exxon Mobil Corp., and Chevron Corp., companies responsible for polluting developing countries, such as Nigeria, beyond levels permitted in Europe and North America (Piller et al. 2007).

### **The politics of philanthrocapitalism**

The links between the Gates Foundation and corporations such as McDonald's and Coca-Cola underpin a wider problem, which is the tendency of private foundations to engage in political or corporate lobbying while appearing to adopt apolitical or non-political stances. This problem is not unique to private foundations. It is also a marked feature of the new philanthrocapitalism, a movement that presents itself as operating outside of formal political channels, while actually wielding considerable influence over them.

The term philanthrocapitalism was coined in 2006 by Matthew Bishop, an editor at the *Economist* magazine who later co-authored, with Michael Green, a book with the same title. The book describes the activities of a number of leading philanthropists, such as Gates, Bono, George Soros, and Jeff Skoll. The latter is a co-founder of eBay and the founder of the Skoll Centre for Social Entrepreneurship, which funds ventures dedicated to harnessing entrepreneurial acumen to improve social outcomes (Bishop and Green 2008).

Bishop and Green argue that these individuals are at the forefront of the movement to apply the tools of the market for meeting social and economic needs, something similar to what Gates, in a 2008 article in *Time* magazine, has described as 'creative capitalism' – the effort to ensure that individuals earn a financial return on their investments in social programmes aimed at improving sanitation, nutrition, and urban and rural infrastructure, and expanding access to financial credit.

Some staff at traditional philanthropic organisations dismiss the suggestion that the new philanthropy is more results-oriented or more efficient than earlier institutions and models. A former head of the Ford Foundation told the media:

I don't think there is anything more ambitious about the new philanthropy ...

hundreds of foundations worked for decades to address apartheid, hundreds of foundations worked to support the civil rights movement in this country, there is nothing more ambitious than those noble aims. They were extremely results oriented ... and the use of business principles has been in the foundation world for a long time. (Levenson Keohane 2008)

Michael Edwards, a former director of the civil society programme at the Ford Foundation and the most vocal critic of philanthrocapitalism, has suggested that the concentration of wealth and power among philanthrocapitalists may be having a negative influence on the non-profit sector both in the United States and internationally, with civil society groups reporting increasing constraints on their flexibility and independence as a result of an obsession with performance reviews, a complaint echoed by recipients in developing regions who state that the requirement to comply with the rules, regulations, and expectations of donors with conflicting aims impairs project delivery (Edwards 2008).

A third concern about the philanthrocapitalism movement is its conflictive relationships with traditional political channels. Political institutions such as the US federal government and UN organisations are publicly scorned yet privately lobbied, thus weakening public regard for the efficacy of governmental bodies while ensuring that the same bodies are receptive to furthering the interests of leading philanthrocapitalists.

When Warren Buffett, for example, announced his US\$30 billion donation to the Gates Foundation in 2006, he quipped that the money would do more good than the money dropped into the US treasury. His sentiment is common among philanthrocapitalists, who, often for just reasons, champion the usefulness of maintaining their distance from political institutions. As a recent working paper from the Global Public Policy Institute (GPPI) notes:

Philanthrocapitalists, and foundations more generally, claim their work is apolitical and ‘problem-oriented’; they argue that they select programs and projects on the basis of need, and do not need to consider other priorities such as foreign policy or foreign economic concerns. This, in their own view, allows them to focus on problem solving and ‘getting things done’. (Marten and Witte 2008: 15)

In the words of one GPPI interviewee, ‘It is important to understand that foundations are usually problem-driven, they look towards success. They identify an issue, they analyze it, and they try to devise solutions. In the end, it is always about impact. They don’t need to worry about politics’ (ibid.: 15). This view is not without merit or import. Staff of bodies such as the WHO have commended the ability of private institutions to operate free of partisan or ideological constraints, avoiding the likelihood, for example, that domestic religiosity in the United States may be biasing US HIV/AIDS prevention

measures abroad. The problem is that perceptions of foundations as apolitical entities limit the ability (1) to apprehend and question tacit political or ideological stances within foundations that may be particularly intractable for being less open or recognisable; and (2) to understand the ways in which foundations lobby governments even as they disparage their partisan nature. The championing of foundations as apolitical also implies a false premise, which is that health goals can or should be divorced from state-supported, democratically accountable interventions – something that is a questionable political statement in itself (McGoey et al. 2011; McCoy and McGoey 2011).

The public scorn for governments is contradicted by recent calls for individuals such as Gates to lobby governments more aggressively to heed the agendas of private philanthropists. In a recent *New York Times* article, Bishop and Green argue that Gates and others must start ‘exercising disproportionate influence in politics’ (Bishop and Green 2009).

The aim to ensure that political channels are receptive to the agendas of philanthrocapitalism is evidenced by attempts to disparage tax policies that could bolster the finances of governments that have been depleted by the recent global financial crisis. A notable example is Bishop and Green’s criticism of the Tobin tax, a tariff that could generate substantial government revenue by imposing a small levy on international currency exchanges. Prominent economists, including Joseph Stiglitz and Lawrence Summers, have endorsed the tax (Stiglitz 1989; Summers and Summers 1989). Commenting on their website, Bishop and Green dismiss the feasibility of the Tobin tax, calling it a ‘fundamentally flawed’ manoeuvre that encourages ‘people to vote for a free lunch’.<sup>3</sup>

The criticism is surprising coming as it does from staunch champions of philanthropy, which is by definition giving aid and succour ‘freely’ to those in need. It indicates that at least two of the most prominent advocates of philanthrocapitalism are explicitly battling measures that could increase state spending on areas such as health.

## Conclusions

We have examined philanthrocapitalism from a perspective that emphasises the role of conflicts of interest while focusing on the Gates Foundation’s investment in companies such as Coca-Cola. We also wish to draw attention to links between philanthropies and government initiatives, and the contradictions that characterise these links. An oft-voiced refrain of the new philanthropy is that private-sector investment fills the void left by cash-strapped governments. A key objective for health activists could be highlighting the ways in which government revenues are strapped through private-sector support and through a reluctance to embrace tax measures that are disparaged by philanthropists who purport to be operating outside the realm of politics.

## Notes

1 Regarding labour practices, Microsoft has been embroiled in legal battles for hiring independent contractors for indefinite periods without offering employee benefits, something the US Internal Revenue Service (IRS) has classified as tax abuse as it limits payroll taxes. In the late 1990s, Microsoft lost a landmark legal case, *Vizcaino v. Microsoft*, requiring it to treat long-term contractors as employees for tax purposes. See Kalleberg, A. (2000). 'Nonstandard employment relations: part-time, temporary and contract work'. *Annual Review of Sociology*, 26: 341–65.

2 See the website of the US Internal Revenue Service, [www.irs.gov/charities/charitable/article/0,,id=96114,00.html](http://www.irs.gov/charities/charitable/article/0,,id=96114,00.html).

3 These comments are from Bishop and Green's blog, [philanthrocapitalism.net](http://philanthrocapitalism.net), in posts that appeared on 16 February 2010 and 2 March 2010.

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