

Why a German billionaire says that pledges like Mark Zuckerberg’s are really bad

By Jeff Guo^[1] December 2 at 7:20 AM



Facebook co-founder Mark Zuckerberg on December 1 announced he had become a father -- and pledged to give away his fortune to make the world a "better place" for baby daughter Max and others. (AFP photo / Courtesy of Mark Zuckerberg)

In 2010, Bill and Melinda Gates announced that they would commit 95 percent of their wealth to charitable work. Together with Warren Buffett, they also created the Giving Pledge, which asks the richest people in the world to devote half or more of their fortunes to philanthropy.

One of the earliest people to sign the pledge? Facebook’s Mark Zuckerberg^[2] and his wife Priscilla Chan. So it was not a complete surprise when Zuckerberg and Chan announced^[3] on Tuesday their plan to set aside 99 percent of their Facebook shares — “about \$45 billion” — for charity.

The news is this: Taking a page from the Gates family, they will use the money to pump up their non-profit, the Chan Zuckerberg Initiative^[4] The private foundation is an especially American style of charitable giving. Non-profits in the United States play a disproportionately large role in public life, in part because American tax laws make it attractive for the rich to donate. Much of their wealth could otherwise be captured by capital gains and estate taxes.

Private spending on social welfare in the United States is four times the average^[5] in advanced economies, according to the Organization for Economic Cooperation and Development. The wealthiest countries, like France and Germany, are far more likely to use government resources to promote social good, and far less likely to use private resources.

This gap in national philosophies helps explain why the Giving Pledge has been popular with American billionaires, yet not quite as popular abroad. German shipping magnate Peter Krämer is one of the most vocal detractors of the pledge, and the American tradition of government-sponsored charity. Here's an excerpt from a 2010 interview^[6] with the German paper Der Spiegel, which asked him for his reaction to the plan.

Krämer: I find the US initiative highly problematic. You can write donations off in your taxes to a large degree in the USA. So the rich make a choice: Would I rather donate or pay taxes? The donors are taking the place of the state. That's unacceptable.

SPIEGEL: But doesn't the money that is donated serve the common good?

Krämer: It is all just a bad transfer of power from the state to billionaires. So it's not the state that determines what is good for the people, but rather the rich want to decide. That's a development that I find really bad. What legitimacy do these people have to decide where massive sums of money will flow?

SPIEGEL: It is their money at the end of the day.

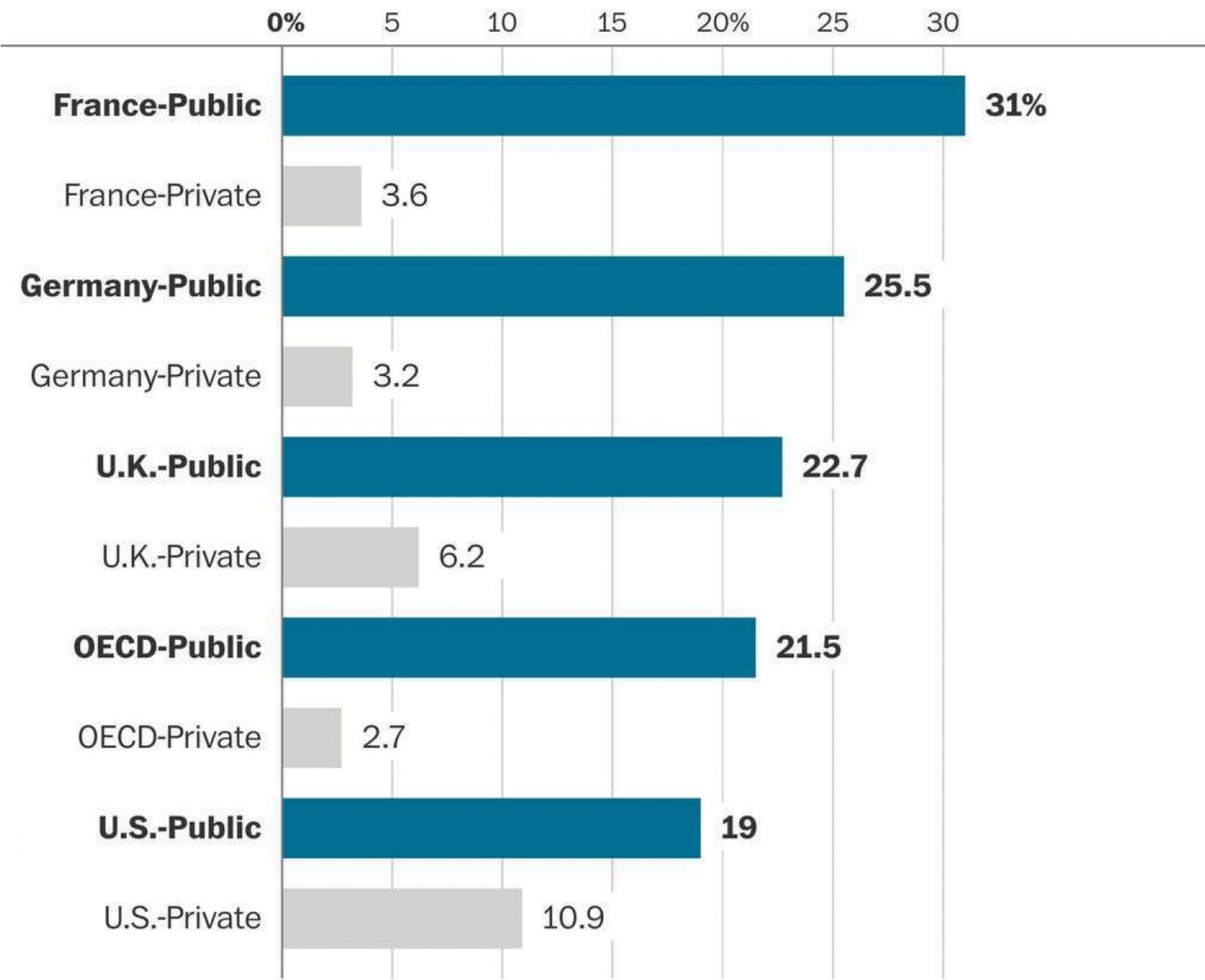
Krämer: In this case, 40 superwealthy people want to decide what their money will be used for. That runs counter to the democratically legitimate state. In the end the billionaires are indulging in hobbies that might be in the common good, but are very personal.

Compared to the richest nations, the U.S. ranks near the bottom in terms of public spending on social support, according^[7] to the OECD. But that’s because a large chunk of the work is carried out by non-profits, or otherwise subsidized by the government through tax breaks.

On average^[8] in well-off countries, private social spending accounts for 2.6 percent of the gross domestic product. In the United States, private social spending is 11 percent.

Social expenditures

As a percentage of gross domestic product



Americans are some of the most charitable people in the world in part because there is a centuries-old tradition of private non-profits helping people in lieu of the government.

Even Alexis de Tocqueville observed the trend in the 1830s, writing: “In every case, at the head of any new undertaking where in France you would find the government, or in England some great lord, in the United States you are sure to find an association.”

There’s nothing necessarily wrong with the American system of tax-subsidized charity, of course. As de Tocqueville argued, promoting charity has the benefit of improving social cohesion. He wrote that when the government taxes and gives to the poor, people feel slighted. When people voluntarily give to the poor, they feel better about themselves.

The critique is that this system affords too much power to the rich, whose decisions may not align with what’s best for society. This is not to say that the government is a paragon of efficacy either, but it risks a lot to depend on a handful of mega-billionaires to be prudent, effective philanthropists.

The U.S. tax code "ends up subsidizing the gifts of high-income taxpayers the most, lower-income renters the least, and middle-class homeowners in the middle,” Duke University’s Charles T. Clotfelter has written^[9]. "One of the most significant consequences of this tax treatment of charitable giving is to give to the wealthiest taxpayers a disproportionate role in allocating public resources and influencing the direction that institutions will take."

In his book Capital in the Twenty-First Century, economist Thomas Piketty proposed a wealth tax as one way to address rising inequality — and transfer wealth from individuals to the state. In the United States, estate and gift taxes achieve some of that function by prodding people to donate their wealth instead of bequeathing it to their children. (Economists like Piketty tend to regard those measures as too modest.)

The debate is whether the money is better off in the hands of the government, or in service to private non-profits. There's no denying the good intentions of the billionaire philanthropists, but it can be hard to know if the decisions they make about how to use their money ultimately serve society in the best ways.

Gates has already given away more than \$30 billion, while Buffet has parted with \$22 billion of Berkshire Hathaway stock. In 2010, before the lion's share of those gifts, the Guardian described^[10] the impact of the Bill and Melinda Gates Foundation on public health:

Precise effects of big charity projects can be hard to measure, especially over a relatively short period. But already two bodies that the foundation funds heavily, the Global Alliance for Vaccines and Immunisation (Gavi) and the Global Fund to Fight HIV/Aids, Tuberculosis and Malaria, have, according to the foundation, delivered vaccines to more than 250 million children in poor countries and prevented more than an estimated five million deaths.

"The foundation has brought a new vigour," says Michael Edwards, a veteran charity commentator and usually a critic of billionaire philanthropists. "The charity sector can almost disempower itself; be too gloomy about things . . . Gates offers more of a positive story. He is a role model for other philanthropists, and he is the biggest."

What genre of philanthropy will Chan and Zuckerberg invest in? Possibly anything. Their letter on Tuesday set two missions, both ambitiously vague: “advancing human potential” and “promoting equality.” They mention curing diseases, improving clean energy, promoting entrepreneurship, fighting poverty and hunger, empowering women and minorities, and so on.

The pair do not have a sterling track record when it comes to effective charity. One of their previous efforts, a high-profile \$100 million donation to fix the schools in Newark, N.J., has been widely criticized as a failure.

Chan and Zuckerberg write in their announcement that they have learned from their past experiences with philanthropy. For now, they will start with their own community in San Francisco, focusing on education, health, and “connecting people.”

Jeff Guo is a reporter covering economics, domestic policy, and everything empirical. He's from Maryland, but outside the Beltway. Follow him on Twitter: @_jeffguo^[11].

Links

1. <http://www.washingtonpost.com/people/jeff-guo>

2. <http://www.theguardian.com/technology/2010/dec/09/mark-zuckerberg-signs-up-for-giving-pledge>
3. <http://money.cnn.com/2015/12/01/technology/zuckerberg-baby-facebook/index.html>
4. <https://www.facebook.com/chanzuckerberginitiative/>
5. <http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-8pages.pdf>
6. <http://www.spiegel.de/international/germany/negative-reaction-to-charity-campaign-german-millionaires-criticize-gates-giving-pledge-a-710972.html>
7. <http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-8pages.pdf>
8. <http://www.oecd.org/els/soc/OECD2014-Social-Expenditure-Update-Nov2014-8pages.pdf>
9. <http://www.parisschoolofeconomics.eu/IMG/pdf/may2012-paris-clotfelter.pdf>
10. <http://www.theguardian.com/world/2010/jul/12/bill-and-melinda-gates-foundation>
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