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BOOKS AMERICAN PHILANTHROPY

IN AMERICAN CULTURE THE
WEALTHY SHOULD CREATE
OPPORTUNITIES FOR THE
NEXT GENERATION



Capitalism's giving side

Why do those Americans who succeed in accumulating vast fortunes often end up giving away so much of their hard-earned money? The question is posed sharply by such initiatives as the Giving Pledge, launched by Warren Buffett and Bill Gates in 2010. Since then more than 100 billionaires, mainly American, have pledged to give away most of their wealth. To sceptics and economists the rich would only divest themselves of so much wealth for reasons of self-interest, such as tax benefits or even the positive emotional pay-off.

But it is hard to believe hard-edged entrepreneurs are all suddenly overwhelmed by pure altruism. The above reasons do not seem sufficient to explain the central role philanthropy has come to play in American life.

Zoltan Acs, an economics professor at George Mason University in the US, sets out to examine this phenomenon. The book's title is significant. His subject is not so much philanthropy itself but how it fits into the American model of capitalism. This broader perspective makes the book particularly interesting. His argument rests on a vital distinction between charity and philanthropy. For Acs, philanthropy involves a reciprocal relationship between donor and recipients.

For instance, when Leland Stanford donated money to found a university in his dead son's name he expected future students to

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expend their time and effort. Both sides in such deals make a form of investment. In that sense, Acs favours much more philanthropy but much less charity given away.

This implicit social contract is, Acs argues, essential to understanding the US model of capitalism. Americans are free to accumulate vast wealth, but it is embedded in American culture that the wealthy should help create opportunities for the next generation.

In that respect philanthropy has played a central role in America's long-term economic success. The US has generated enormous wealth by giving free rein to the forces of entrepreneurship and "creative destruction". It has let the market economy rejuvenate itself by shaking out less efficient businesses.

But philanthropy has allowed it to eschew a rigid social hierarchy while at the same time creating world-class universities and research institutions.

Unfortunately, this book sometimes reads too much like a paean to American capitalism, rather than a critically detached study. It tends to overestimate the differences between the US and other models of capitalism while underestimating the problems facing America.

Acs describes the US as having a weak state compared with European and southeast Asian capitalism. But once

state and local spending are taken into account the share of government activity in gross domestic product is not that different from other countries – the International Monetary Fund estimates total government expenditure in the US accounted for 40.6 per cent of GDP in 2012, against 44.9 per cent for Germany. This is a difference of magnitude but less substantial than Acs suggests.

Similarly, the US is more hesitant about embracing creative destruction than it was in the past. It has acted to constrain market restructuring, rather than welcoming it. Whether the bailouts of 2008 were wise is arguable, but they certainly represented a limitation on the operation of the free market.

There are also serious studies showing that, by some measures, contemporary America is less mobile than many other developed countries. Such results will always depend on the measures chosen, but American mobility is not as manifestly superior as Acs suggests.

None of this is meant to deny that the US has succeeded in generating enormous wealth, nor to contend that the American model is more or less identical to European capitalism. But it is not necessary to hinge a genuine insight into the nature of American philanthropy – its central role in the ideal of equality of opportunity – on a one-sided account of the US model of capitalism.

One authority quoted by Acs captures elegantly a central paradox of US capitalism: Americans tend to see "economic freedom as an equal chance to become unequal".

Why Philanthropy Matters, Zoltan J Acs (Princeton University Press, 2013, £19.95)

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