

Lord Browne of Madingley
A New Age of Philanthropy?
Royal Society of Arts, London
15th July 2013

Ladies and gentlemen, good evening.

It's wonderful to see so many people I know in the audience. Let me begin by thanking the Art Fund for hosting us, and the Royal Society of Arts for providing this magnificent venue.

Both organisations are of course committed to addressing some of the most important challenges faced by society today, and their philanthropic work is an example for others to follow. Their support provides an appropriate backdrop for the subject of my speech this evening, as does James Barry's mural, which depicts the progress of human knowledge and culture.

That is why philanthropy exists - to support human progress. That is something I wrote about in my recent book, *Seven Elements that Have Changed the World*. It started as a book about science, history and geopolitics. But it soon became clear to me that the history of the elements is actually one of power, progress and destruction.

Men and women have used the elements to consolidate their power, and sometimes to wreak destruction on humanity. But from the humblest of volunteers to the corporate titans turned philanthropists of the Victorian era, others have used them to drive progress in society for the good of humanity.

With that in mind, I want to make four points.

First, throughout history, philanthropy has been the norm, not the exception.

Second, we need to get a new balance here in the UK between state funding and private philanthropy.

Third, that will require the right incentive structures, based on lessons learned from different times and different places.

And fourth, it will also require leadership of the highest calibre.

In my experience, people today often see philanthropic activity as something quite out of the ordinary, something which requires special attention and special effort. But for much of history, philanthropy has been the norm, not the exception – my first point this evening.

Andrew Carnegie – who became a hero of mine when writing *Seven Elements* – his *Gospel of Wealth* was clear. It was the duty of a man of wealth to live a modest and unostentatious life, and to ensure that individual wealth made possible by the wider community was returned to that community.

Those sentiments are not particularly controversial, and they formed the basis of mainstream political argument throughout the twentieth century. More contentious is the mechanism which Carnegie advocated for redistribution. He saw inheritance taxes and death duties as second best, preferring to trust a wealthy man to administer his own surplus gains for the benefit of poorer citizens.

Carnegie went so far as to say that ‘the man who dies leaving behind many millions of available wealth... will pass away unwept, unhonoured, and unsung’. In Carnegie’s eyes, the state was a poor relation of privately administered philanthropy. He saw philanthropy as a way of ensuring that his gains from business were used for good rather than evil, and urged his fellow tycoons such as Rockefeller and J. P. Morgan to follow his example. By the time of his death, he had given away 90 per cent of his wealth.

Philanthropy was widespread among the commercial titans of the nineteenth and early twentieth centuries, and it wasn’t confined to the United States. In the UK, Joseph Rowntree and the Cadburys were known for their charitable work, while in India, Jamsetji Tata founded a commercial dynasty which put the welfare of society at the heart of its business model.

Importantly it was not the exclusive preserve of the super-rich. As John Nickson explains in his recent, excellent book, philanthropy permeated Victorian society. Sunday schools, soup kitchens and the Salvation Army were all established and supported by the working classes. Nickson's book leads me to conclude that absolute and relative poverty were extreme, and that the dire social conditions of the age drove a system in which all socioeconomic classes engaged in philanthropy quite as a matter of course.

That system ultimately could not cope with the poverty and inequality of the industrial era, and the state quite rightly stepped in. Gradual change began with early reformers like Asquith, Lloyd-George and Churchill, and ended with two world wars and the Beveridge Report. The result was a transformation in expectations of what the state should provide. From healthcare and welfare, to libraries and many museums, taxation crowded out philanthropy as the primary source of funding for activities which serve the public good.

But the history of philanthropy shows that state provision is only a recent phenomenon. From ancient Greece to Andrew Carnegie, via organised religion, successful artists, and the bankers of the middle Ages, the generosity of individuals has a much richer history.

State provision came about because society had outgrown a system based on private provision. But today, I think we need to find a new balance between philanthropy and the state, my second point this evening.

We start from a remarkably good position. Surveys suggest that the UK is either the eighth or fourth most generous nation in the world, with UK households devoting around 0.5 per cent of their expenditure to charitable causes, irrespective of how wealthy they are. That is the mark of a decent society, in which people from all backgrounds see philanthropy as a duty and a privilege.

Even in the face of a deep recession, the number of people donating money has remained steady. Philanthropy past and present shows that the innate generosity of human beings has never been in doubt. But changing demographics and the recent recession mean that the burden on the state is growing. As a result, it is coming under pressure to redefine and scale back its contribution in certain areas.

The impact on museums, galleries and universities has been significant. It is something I have seen during nearly two decades, first as a Trustee at the British Museum and then at Tate, and while leading an independent review into the funding of higher education. Cultural and educational organisations are increasingly looking beyond the state for their income. At Tate, for example, income from our business activities and corporate brand-building sponsorships represents an increasing part of our funding. But we and others are turning much more frequently to individual supporters, who are now being asked to fund activities which might once have been provided by the state.

The demand on private philanthropy is increasing. The proportion of income given to charity is relatively flat across the income scale, which is a sign that philanthropy is widespread. But it also shows that there is room for giving to become much more progressive, and for the rich to redistribute a greater proportion of their income through philanthropy.

Some would call for that to happen through the tax system. However, we need to compete to attract internationally mobile capital, and a tax rate that is too high would reduce the potential for entrepreneurial growth. Besides, against a backdrop of rising inequality, asking the rich to give more is a decent way of creating a more balanced society.

So, we need to take action to rebalance a system which needs private philanthropy to play a greater role. That should begin by creating the right space for private philanthropists.

Organisations like Tate and the British Museum receive an annual government grant. We provide services for the public good - such as free entry to our galleries, care and development of the collection, educational activities, and international cultural diplomacy. But the link between the grant and the services provided is ill defined. A better way of doing this would be, therefore, to specify the terms under which payments are given for clearly defined public services, on a very long-term fixed contractual basis.

The additionality of what philanthropists create through their giving would then be so much clearer, and they would be more likely to give. That is important,

because while both governments and markets fail, a market of individual philanthropists would fail far less often than the government in its choices.

This is not a call for the retreat of the state, which has already scaled back its contribution significantly. A clear contractual arrangement might not save the state any money. But it is a call to:

- be clear about what the state pays for;
- create the space for private philanthropists to act;
- be clear about what private giving can add;
- and encourage a balance between state and private funding which is fit for modern society.

Creating the space for private philanthropists to step in doesn't mean they will automatically do so. That will require the right incentive structures, my third point this evening.

Incentives are the key which unlocks change. You cannot direct change from the top, but you can manipulate the rules of the game to achieve a desired outcome. When it comes to philanthropy, that starts by providing a tax code which reduces the cost to both the state and the donor of a service provided.

Gift Aid, payroll and legacy giving are well-established ways of incentivising philanthropy. Their generosity has increased over the past few decades, and they are now mostly on a par with the incentives offered in the United States. But research shows that have not led to significant changes in philanthropic behaviour.

A period of super-incentives could help. Gordon Brown's "Get Britain Giving" campaign tried to do this, with a 10 per cent temporary top-up to payroll donations, but it is not clear that it had a long-lasting effect. The proportion of donors using payroll giving has risen, but from a very low base, and the scheme is still only used by 3 per cent of the workforce.

We need to learn the lessons from that experience to introduce a more potent set of temporary incentives which make it significantly cheaper to give. We should also incorporate insights from behavioural economics and psychology into systems which make it easier and more convenient to donate money. Giving by

text message or at an ATM are just two examples of the many things we could be doing with new technology, while innovative investment schemes like social impact bonds are opening up a promising new space for philanthropy, in which contributions are used to benefit society rather than the individual. We must not allow regulatory burdens to stifle these.

Incentives and systems like these should serve as catalysts for giving, measures which help to make philanthropy a habit. Financial incentives are important, but people are motivated by far more than just money. Non-monetary recognition must also form part of any set of incentive structures.

Carnegie and Rockefeller gave money for a variety of reasons, including compassion and, no doubt, guilt. But they also wanted to leave a legacy, to be immortalised long after their companies had disappeared or become unrecognisable. Business is definitely ephemeral, but art, culture, and education are not.

Recognition and celebration of philanthropy should not be confined to those who can afford to fund an entire institution or building. Whether they are big or small donors, people will feel part of an organisation if they can have an input into what it does. New technology can help here, and it is being used to build more personal, longer-lasting and more productive relationships with donor networks. That is an exciting prospect which promises to attract repeat contributions from those who would otherwise see giving as a one-off event.

Those incentives will unlock change from the bottom up, but they must also be accompanied by leadership at the top, my fourth and final point.

The most important thing that leaders in public life can do is to set a positive and consistent tone from the top, because that sets the context for everything else you do. That means celebrating philanthropy not just because it incentivises donors, but because it helps to make giving an integral part of your culture. In that respect, the United States is a class apart.

When I graduated from the Stanford Graduate School of Business, my earning potential was immediately assessed, and I have received regular letters since then telling me how much I owe annually.

The same thing happened a decade later, when I arrived in the United States to work as the Chief Financial Officer of the oil company Sohio. I received a letter from the philanthropic organisation United Way, a huge network of community organisations, with its roots in the Community Chests of the early 20th century. Their letter welcomed me to the city, and told me what my fair share of their funding in Cleveland would be. It was very matter of fact, and everyone received a letter – from the most junior staff to the chief executive.

These requests weren't regarded as presumptuous or unwelcome. They are simply representative of what happens when you have a real culture of giving, which depends on the tone set by business leaders, politicians and others in public life.

That culture makes people more likely to give, and more willing to take advantage of tax incentives. The result is that one third of Americans donate to charities like United Way through payroll giving, compared to just 3 per cent of the UK workforce. We should draw comparisons with the US with caution, but we have much to learn from its culture of broadly based giving.

The right tone from the top also requires leaders to identify and laud role models, those who set examples of excellence in philanthropy for others to follow. That is important because change in society has always depended on the examples set by great leaders, individuals who identify a problem, have a clear vision, and make sacrifices with no guarantee of receiving anything in return.

Cadbury, Carnegie, Rockefeller and Tata all did that, and became role models for their contemporary and future philanthropists. We remember them now as much for their philanthropy as for their achievements in business. Today, people like Bill Gates and Warren Buffet are in the vanguard of creating change by pledging to give away more than half their wealth, and persuading others to do the same. There are now over 100 signatories to the Giving Pledge.

If they are consistently celebrated by those at the top, each one of those signatories will inspire countless others to leave a legacy in their will; to make a small but regular donation to their university; or simply to send a five pound donation by text message to save a painting by their favourite artist.

When you add them up, these small and incremental changes begin to look like a new age of philanthropy.

Ladies and gentlemen, Britain is a commendably generous society. But our expectations of private philanthropy are now rising, and we must act to meet that challenge.

In a competitive world, the power of taxation to redistribute to some of the greatly needed parts of a civilised society has probably run its course. We need more powerful philanthropy to make a more perfect society. Everybody, from those with great power and wealth to those with modest means but great responsibility, must do everything they can.

Change will come by creating the space for private philanthropists, by providing the right incentive structures, by setting the right tone from the top, and by identifying and celebrating role models. To paraphrase Shakespeare, there is nothing new but that which has been before. When it comes to philanthropy, we know how each one of these components works, we understand behavioural economics and psychology much better, but we have yet to integrate them into a system which serves today's society.

There is a story about Sir Moses Montefiore, one of the great businessmen and philanthropists of Victorian Britain. When asked how much he was worth, he would quote not how much he owned, but how much he had given away to charitable causes. His belief was that you are only worth what you are willing to share.

Thank you very much.