— EDITED TRANSCRIPT—

HUDSON INSTITUTE's

BRADLEY CENTER

FOR PHILANTHROPY AND CIVIC RENEWAL

presents a discussion of

Aligning Investments with Grantmaking?

Monday, February 12, 2007, Noon to 2:00 p.m. • The Betsy and Walter Stern Conference Center, Hudson Institute

In January 2007, the *Los Angeles Times* published a two-part series on the Bill and Melinda Gates Foundation (beginning with "Dark Cloud Over Good Works of Gates Foundation" on Jan. 7), suggesting that the effects of some of its corporate investments are at direct odds with its grantmaking. This raises a question that has long roiled the philanthropy world: should foundations practice "social investing," by screening their investments to insure they're aligned with their missions? No, argued American Enterprise Institute Adjunct Fellow **JON ENTINE** in a recent *Wall Street Journal* editorial: "The dark secret of 'social investing' is that it is neither art nor science: It's image and impulse. It reflects perceptions, not performance." ("What Should Bill Gates Do?" Jan. 26)

On the contrary, blogger and foundation adviser **LUCY BERNHOLZ** insists: "What Entine calls image, impulse and perceptions, I call values. If you are going to invest in public companies—which it's safe to say Foundations are going to do—thinking through how they align with your values, where they compromise, where you compromise for portfolio balance, etc., is appropriate." **ALLISON FINE**, Demos Senior Fellow and author of *Momentum: Igniting Social Change in the Connected Age*, agrees with Bernholz: "Given the Foundation's resources and ability to hire anyone from anywhere with the necessary expertise to review their investments, it is mind boggling to believe that finding socially conscious companies to invest in—to at least avoid companies that are specifically and actively counteracting their grantmaking efforts, would be too difficult or distracting for them." (For more, visit Allison Fine's blog, *A. Fine Blog*, and read her Feb. 7 *AlterNet* piece, "How Generous Is the Bill Gates Foundation?" online at http://www.alternet.org/story/47713/.)

On February 12, 2007, a Bradley Center-convened audience pursued issue of the Gates Foundation's view of social investing in a discussion with the above-named authors and scholars and the Atlas Economic Research Foundation's **PAUL DRIESSEN**. The Bradley Center's **WILLIAM SCHAMBRA** served as the discussion's moderator.

PROGRAM

12:00 p.m.	Welcome by Hudson Institute's **WILLIAM SCHAMBRA**
12:10	Panel discussion
	Panelists: **ALLISON FINE**, Demos
	JON ENTINE, American Enterprise Institute
	LUCY BERNHOLZ, *Philanthropy 2173*
	PAUL DRIESSEN, Atlas Economic Research Foundation
1:20	Question-and-answer session

THIS TRANSCRIPT WAS PREPARED FROM A TAPE RECORDING AND EDITED BY KRISTA SHAFFER. To request further information on this event or the Bradley Center, please contact Hudson Institute at (202) 974-2424 or e-mail Krista Shaffer at krista@hudson.org

HUDSON INSTITUTE

1015 15th Street, N.W.
Suite 600
Washington, DC 20005

202.974.2400
202.974.2410 Fax
http://pcr.hudson.org

Panel Biographies

Lucy Bernholz is the founder and president of Blueprint Research & Design, Inc., a strategy consulting firm specializing in program research and design for philanthropic foundations. She founded Blueprint Research & Design, Inc. in 1997 as a means of pursuing a lifelong interest in the shifting relationships between society's definitions of public and private and to help grant makers make better use of applied research. Bernholz has worked as a program officer and consultant to foundations since 1990, and has also been a visiting scholar at Stanford University's Graduate School of Business. As a community foundation program officer Bernholz supervised the implementation of special initiatives focused on neighborhood development, lesbian and gay community issues, management assistance, citizenship, and early adolescence. Bernholz is a noted analyst of the philanthropic industry and has published numerous articles in the trade and general press, edited collections, and scholarly journals. Her most recent book, *Creating Philanthropic Capital Markets: The Deliberate Evolution*, was published in 2004.

Paul Driessen is senior policy adviser for the Congress of Racial Equality, Atlas Economic Research Foundation and other nonprofit public policy think tanks. He writes and speaks frequently on energy, the environment, economic development, international health, human rights, global warming and corporate social responsibility. His book, *Eco-Imperialism: Green Power—Black Death*, documents the harm that environmental policies often have on poor people, especially in developing countries. His recent report, *Responsible Progress in the Andes*, takes a critical look at activist campaigns against mining operations that would bring jobs, infrastructure, and modern safety and pollution control practices to poor communities. Driessen's career prior to his work with Atlas Economic Research Foundation has included tenures with the United States Senate, U.S. Department of the Interior and an energy trade association. He is active in the Public Relations Society of America's Social Responsibility Section, and has produced documentary films about the Vietnam Memorial, immigration through Ellis Island, and the teeming marine habitats found beneath offshore oil production platforms.

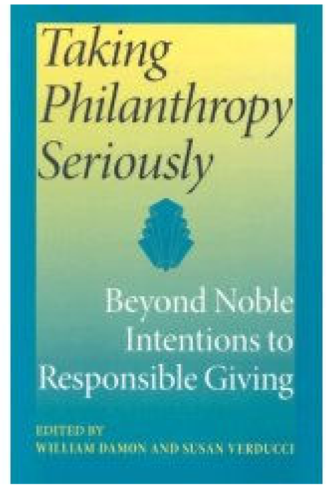
Jon Entine is an author, adjunct fellow at the American Enterprise Institute, columnist for *Ethical Corporation* magazine and Senior Counselor for Corporate Social Responsibility at Northlich, a Cincinnati-based PR firm. He consults on socially responsible business with clients, including the Bill and Melinda Gates Foundation. Entine has published hundreds of articles and three books on business ethics and science and society. A fourth book, *Abraham's Children: Race, Identity, and 'The DNA of the Chosen People'* (Warner Books), which addresses ancestry and identity, the effort to identify cures for diseases that disproportionately impact specific populations, and the tempest that the renewed focus on "race" research is stirring, is scheduled to be published in September. Previously, Entine spent twenty years as a network television news producer, winning more than twenty awards. Entine has written for or been featured in hundreds of articles in major publications including the *Wall Street Journal*, *New York Times*, *Washington Post*, *Los Angeles Times*, *USA Today*, *Time*, and *Financial Times*.

Allison H. Fine is the author of the recently released *Momentum: Igniting Social Change in the Connected Age*. *Momentum* is a fresh, lively roadmap for social change in the digital age and was cited as a recommended read by the *Wall Street Journal* and the *San Francisco Chronicle*. Fine is a senior fellow at Demos: A Network for Thinking and Action, where her work focuses on increasing political participation. Fine is the founder of Innovation Network, Inc. (InnoNet) which provides evaluation tools to foundations and nonprofits, and the former CEO of E-Volve Foundation. She is a frequent contributor to the *Chronicle of Philanthropy*, *tompaine.com* and *The Huffington Post*. She currently serves on the board of directors of Just Vision and is an advisory to National Neighborhood Day, One Web Day, and The Hope for Henry Foundation.

Proceedings

WILLIAM SCHAMBRA: I'm Bill Schambra, and I'm director of the Bradley Center for Philanthropy and Civic Renewal at Hudson Institute. Krista Shaffer and I welcome you to this panel discussion, entitled "Aligning Investments with Grantmaking?"

But first, as usual, a preview of coming attractions. I don't have the title or the full panel yet, but on March 22, we will hold a discussion of what I think is a very fine and insightful book on philanthropy, entitled *Taking Philanthropy Seriously: Beyond Noble Intentions to Responsible Giving*, edited by William Damon and Susan Verducci and published by Indiana University Press. It's part of a series examining the nature of good work in various professions – in other words, what constitutes work that is both effective and satisfying. And unlike most books in the field, this one tends to be pretty honest and rigorous about the difficulties of doing good in a profession that may, in fact, not be a profession at all.



As for today's panel, early this past January the *Los Angeles Times* ran a lengthy, two-part investigative series, the tone of which is perhaps best captured by the title of Part I, "Dark Cloud Over Good Works of Gates Foundation" (January 7). The dark cloud, as the *Times* explained, is the fact that the Gates Foundation is substantially invested in corporations overseas, among other things, which operate in such a way, they claim, as to cancel out some of the beneficent effects of the foundation's own grantmaking. Consider the case of the fourteen-month-old Nigerian boy, Justice Eta, who had been vaccinated against polio and measles thanks to a program funded by Gates. He nonetheless has suffered since birth from respiratory ailments that can be traced to a discharge from a nearby petroleum refinery run by an Italian firm. One of the investors in that firm, as it turns out, is indeed the Gates Foundation. The *Los Angeles Times* concluded, "In a contradiction between its grants and its endowment holdings, …the foundation reaps vast financial gains every year from investments that contravene its good works."

The series triggered a lively debate in America's newspapers and on its web sites, and we're pleased to have four panelists with us today who have been active and eloquent participants in that debate. I posed to them some time ago these questions – which they will no doubt almost entirely ignore in their comments (laughter):

- Should foundations, especially foundations the size of the Bill & Melinda Gates Foundation, seek to align their investments with their grantmaking?
- Are there adequate sources of information or sufficiently practical mechanisms to which foundations interested in aligned investing can resort?
- Does the Gates Foundation's refusal to invest in tobacco enterprises compromise in any significant way their stated reluctance to get into the business of making complicated moral judgments about investments?

- And what about social investing in general? Is it morally necessary? Is it an illegitimate interference with the free market? Is it hopeless to put into practice? Is it too vulnerable to unintended consequences? What about this broader practice of social investing?

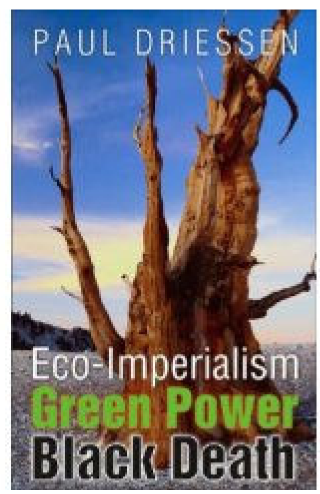
So, let's turn to the panelists today that we've assembled for their thoughts on these and other questions. We will hear first from Allison Fine, senior fellow at Demos: A Network for Ideas and Action (www.demos.org) and author of *Momentum: Igniting Social Change in the Connected Age*. And I should remind you that *Momentum* is for sale by Politics & Prose Bookstore out here in the lobby, if you're interested. Allison, you would actually sign these books, is that correct?

ALLISON FINE: I would sign them, certainly.

WILLIAM SCHAMBRA: Next, we'll hear from Jon Entine, adjunct fellow at the American Enterprise Institute and a columnist for *Ethical Corporation* magazine. Jon recently had an op-ed in the *Wall Street Journal* ("What Should Bill Gates Do?" Jan. 26) on this very topic in question.

Then we'll hear from Lucy Bernholz, founder and president of Blueprint Research & Design, Inc., a strategy consulting firm for foundations, and proprietor or blogger of the web log Philanthropy 2173 (http://philanthropy.blogspot.com/). It's a very fine web site on issues in philanthropy.

And finally, we'll hear from Paul Driessen, a senior policy advisor for the Congress of Racial Equality (www.core-online.org) and the Atlas Economic Research Foundation, and author of *Eco-Imperialism: Green Power, Black Death* (Merril Press, 2003; Academic Foundation, 2006.)



I think we might have a couple of disagreements in points of view among the panelists today, so I've asked them to make particular effort to confine opening remarks to no more than ten to fifteen minutes, and then we'll have some conversation. The promise is that there will be plenty of time for interchange among the panelists once they've laid out their initial arguments.

So, Allison?

ALLISON FINE: Thank you – I'm delighted to be here. My book *Momentum* focuses on ways that nonprofits and foundations can change the way they work to become more open, more transparent, more accountable, and more successful. And as much as it pains me to say it, it appears that Bill & Melinda Gates haven't yet read my book. Maybe they will.

(Read about *Momentum* on Allison's web page, online at http://web.mac.com/allisonfine1/iWeb/Allison%20Fine/Welcome.html.)

Since its inception, the Gates Foundation has been committed to alleviating the horrible scourge of AIDS and HIV, particularly in sub-Saharan Africa. They've given out nearly $2 billion in grants to this program area. At the same time, though, they've invested about $1.5 billion in Big Pharma. But let's get more specific.

The Gates Foundation is currently holding about $189 million worth of stock in Abbott Laboratories. Abbott is the maker of Norvir (ritonovir) and Kaletra (lopinavir/ritonavir), leading second-stage drugs to alleviate the symptoms of HIV. A few years ago, Abbott created a Global Citizenship program in response to the worldwide concern about the fact that the price of these drugs had quadrupled in the last five years. The Global Citizenship program has four main components: to create innovative products, increase patient awareness, make medicines available by improving infrastructure – for example, training hospital workers, and finally, participating in public dialogue. Ultimately, though, all of this talking and "awarenessing" is cold comfort to the nearly 600,000 children in Africa with HIV who can't afford their medications. The conflict between its investments and its grants places the Gates Foundation at the uncomfortable crossroads of Absurd Avenue and Blind Eye Alley.

Don't hear my comments today as criticism of the Gates Foundation's grantmaking, though. They are an enormous and committed and thoughtful and strategic grantmaker. However, some of their investments directly contradict the good work of their grants. This is a terrible practice that needs to change.

Foundations, as many of us know, are actually required to do very little. They don't manufacture anything. They don't buy anything. They can give grants to any particular groups – or not. And they don't have to have outside directors on their boards, even if the foundation, as Gates' will be when Warren Buffett invests his money, has an asset size that would make the equivalent of the fifty-sixth richest country in the world (below Kuwait and above Bangladesh, in terms of GDP). And that's okay.

We do know that they have one requirement, mainly, and that is to spend at least on average 5 percent of their endowments on grants. Now, if you work in the nonprofit sector, you're very familiar with this 5 percent (payout) rule.* You might even be a bit obsessed with the 5 percent rule. What you may not have thought much about is the 95 percent. We don't even have a rule for it. It's just the other 95 percent. That's the amount of the endowment that is invested to try to increase the payout for the grants.

The Gates Foundation has intentionally built a firewall between its investments and its grants. This is even more than a firewall within an institution. They've actually created two separate institutions – one for the grantmaking, and one for the investments. It's a bit like the way my parents watch television; one is in the front room, one is in the back room, and they never seem to intersect at all.

So why is the Gates Foundation, even after this new scrutiny, sticking with the firewall? According to Patty Stonesifer (Gates Foundation CEO), there are two reasons. The first she gave

* The Bradley Center's first monograph, *Trouble in Foundationland: Looking Back, Looking Forward* by Peter Frumkin (2004), addresses the topic of the 5 percent payout rule. For a description, a transcript of a panel discussion on Frumkin's work, and to download your copy of the monograph, visit the Hudson Institute online bookstore at https://www.hudson.org/bookstore/itemdetail.cfm?item=56401.

was to say that it is naïve to think that any single shareholder can affect corporate behavior. And the second was because the foundation is entirely focused on its grantmaking, she said.

I think these explanations are spacious, to say the least. And I want to point out that there is an enormous difference between being an activist shareholder and making sure that your grants aren't being actively undone by your investments. There are an increasing number of foundations, like the Nathan Cummings Foundation in New York, that use their investments as leverage to pressure public corporations. For our discussion here, I am even willing to lower the bar even further for the Gates Foundation – I think this is very generous of me. I'm just asking that the focus on return on investment that they currently have not be allowed to cancel out the intended good works of the grants of the foundation.

But let's imagine that the Gates Foundation might be interested in a social return on investment. They could do that, and they could even choose not to do it through one of the current social investing firms that focus just on that. Remember, this is Bill Gates. He has a long track record of creating a unique pathway that is quite successful for him. So it's quite possible he could be an outstanding candidate for creating his own social return on investment pathway at the Gates Foundation – something entirely new that fits the unique vision of the world and the change they're trying to create in it.

Stonesifer says that it would take away from their focus on grantmaking. I say that their focus needs to be on more than the 5 percent in their grantmaking, and that they do need to focus on the total impact their activities have on the important issues that the foundation addresses worldwide. Creating an immutable firewall between investments and grants is nonsensical – a strategy worthy of ostriches, not leaders. It pretends that the only bottom line for the investments is financial return. If you insist on the highest financial return possible, and it directly reduces the impact of your grants, what exactly have you accomplished?

Please hear me. It behooves the foundation the grantees not to cancel out the good work of the grants, but I'm not calling for further regulation or requirements. If you look very carefully at what I am saying, you'll notice that we have arrived here at Common Sense Corner.

Thank you very much.

JON ENTINE: Thank you very much for those provocative statements. I could probably name drop and say that I was just talking to Bill (Gates) before I came here, since I have done some consulting work with the Bill & Melinda Gates Foundation, but I never got to talk to Bill Gates.

ALLISON FINE: You didn't have to admit that!

JON ENTINE: Friends of mine say I should name-drop that, and maybe in other conversations it might do a lot of help. I was asked by the Gates Foundation, because I have written on this subject, to review some of the research and literature and try to help them as they are thinking through what their approach has been on some of these issues, and also where they want to go in the future.

This is a very fluid area, and this is a very reasonable topic for debate and discussion, which is what we're hoping to do now. But the spark for this discussion is the *Los Angeles Times* article, which I think – having spent twenty years in journalism – is really an outrageous piece of journalist trash. I'm not one for hyperbole, but it really was very poorly executed in a number of different ways.

I'll just start with the very beginning of the piece: "…[T]he foundation reaps vast financial gains every year from investments that contravene its good works." We already start out with a very bald statement, an ideological construction that is really a straw man. It suggests that somehow the foundation is distinct from its philanthropy, that there is a tension between what the foundation is and its good works. In fact, the foundation *is* its good works. The foundation *is* helping people. The idea of somehow gaining huge or vast financial gains presented as something to be embarrassed by is really imposing this kind of anti-business, corporate mentality that we've seen by many in the anti-business advocacy community, imposing it on a foundation. I think that that is really reprehensible. The foundation's goal is to raise money and use that money to help people. The idea that its raising money is a negative or something to be embarrassed by really, I think, indicates how misled and how unsophisticated and unnuanced critics of this kind of issue really are.

There are four major points that were raised in the piece, and I'd like to discuss each one of them. One is that investing in "good" companies leads to superior stock performance, and vice versa – that was implicit in the piece. You can do well by doing good; if you invest in "good" companies, you don't sacrifice anything, and you might even gain a lot. There has been a vast amount of literature created in what I call the sycophantic social investment community over the years. The authors are people with "skin in the game" - in other words, they are social investors who are involved in the community, who like to promote it, and who put out research that essentially supports a very narrow position that social investing leads to superior returns. There are very few independent studies on that; the independent studies don't actually confirm that. But the ones with "skin in the game" tend to.

The second one is that the corporate world can be divided into good guys and bad guys. You see this all the time. Fifty-two percent of the companies were rated "good" while 41 percent were considered "bad." They have these very simplistic, unnuanced, black-and-white structures – similar to the ways we used to look at "good" and "bad" in junior high school. There is also a belief that we have objective metrics that are widely embraced and can categorize companies that are socially responsible or not socially responsible. They don't ask questions like, do companies do socially responsible things or things that people might consider socially responsible? Instead they ask, is it a good company or is it a bad company, and should we invest in it?

A third category I would call the issue of disinvesting is the so-called "bad" companies or investing in so-called "good" companies can change corporate behavior for the good or the bad. If the buying and selling of stocks makes you feel good, but it doesn't change corporate behavior, that is fairly narcissistic of you. I think the goal here should be facing tough questions. Do we want to change corporate behavior? Can we change corporate behavior? We should be asking these questions instead of just asking, do we want to feel good about ourselves and sleep well at night but not change behavior at all? It's about taking action on this. We all have outrage.

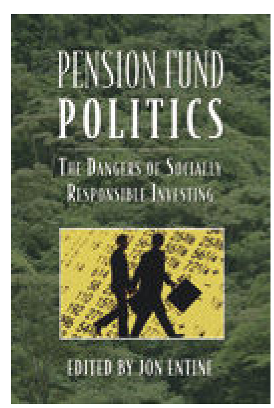
No one wants to see situations in the world where people are harmed in some kind of way. But the question is, how do we alleviate it rather than just taking symbolic action.

And a fourth one would be that you and I can actually make money investing in the "good" guys and avoiding the "bad" guys. What a great idea! We can buy (Ben & Jerry's) Rainforest Crunch ice cream. We can buy Body Shop cosmetic products. And then we can feel good about the world. We don't have to do anything really serious – all we have to do is buy from "good" companies and not buy from "bad" companies. I don't know how people arrived here today – whether they came by taxi or whether they got here by airplane – but God, we all came on bad companies, because that's oil and many of the oil companies are basically cut off from being considered socially responsible or "good" companies.

I wrote an academic paper on this, and I want to summarize my position on this and then go into it in some detail. I'll actually read to you from an article I wrote in an academic magazine called *Organization and Environment* ("The Myth of Social Investing," November 30, 2003). "According to its advocates, social investing (also known as socially responsible investing or ethical investing) is a fast growing phenomenon that represents 'nearly one out of eight dollars under professional management in the United States.'" It doesn't, first of all. It represents less than 2 percent, and probably less than 1 percent.

> Its central tenet is that clients can "invest for their own futures and a better world at the same time" by buying stock in companies that pass social screens and avoiding investments in companies that do not. According to this general approach, publicly-traded companies can be "objectively" rated using data gathered by social investing researchers… Some academicians incorporate these ratings into their research as measures of Corporate Social Performance (CSP). In contrast, this study contends that social investing principles are problematic, and the data and ratings generated by social investment researchers are hopelessly flawed. Social investment advocates rely on sketchy, highly selective research and pseudo-objective ratings that belie the complexity of modern corporations and economies. Social screening in general …[is] tainted by anachronistic, contradictory, idiosyncratic, and ideologically constructed notions of corporate social responsibility. Representations of the growing financial impact and competitive performance of social investing are questionable. No social research organization or "socially responsible" mutual fund has yet presented a coherent case for why its criteria are ethical or socially responsible or better at effecting social change. This study concludes that the general approach of SI advocates, including by academic researchers, is one of vindication of the true believer, not investigation.

Put simply, social investment does not promote social change.



One of my issues was the implication that there are superior returns by social investing. I have two books here. One I edited through the American Enterprise Institute on pension fund politics (*Pension Fund Politics: The Dangers of Social Investing*, August 2005). It includes a wonderful essay by Alicia Munnell, who is the director of the Center for Retirement Research at the Boston College School of Management. Munnell has about seven books out through the Brookings Institution and is about as left-wing as you can say. She concludes in a very comprehensive study that the vast majority of the empirical evidence supports the theory that the impact of risk-adjusted return of carefully constructed, socially screened portfolios is zero. The second book is *The Market for Virtue* by David Vogel (Brookings Institution Press, 2005). Vogel is a well-known liberal from Berkeley. In the book, he says that CSR does matter to investors under unique circumstances, but its relative importance to investors and the financial prospects of this is close to non-existent.

There have been many shorter studies, but there has been only one longitudinal study – from 1963 through 2001, a very well known Wharton study – which indicates that the drag for social investing runs to thirty-one basis points per month, almost 4 percent a year. That could be debated, and methodological questions have been raised about that study, but let's just say, at best, social investing is a wash. Probably, it's a drag because you are in some cases excluding investment in entire industries. Again, at best, it's a zero; probably it's a drag. And the only contradictions to those kinds of studies are done by people with "skin in the game" – Sandra Waddock, for example, who has done many, many studies on this. She also consults with Kinder, Lydenberg, & Domini (KLD); she is on their advisory board; and her whole career has been built on creating, I believe, the myth that these kinds of things actually exist using very selective data on this. But the widely accepted data do not support that.

I want to address now the idea that you can distinguish good from bad. One of the examples in the *Los Angeles Times* piece was BP, which I thought was a very good example. They talk about a South African clinic that is under siege because there is a company right near it that spews out smoke. The company is partly owned by BP and Shell, and they talk about how horrible BP is. And so I did a little research on BP, this absolutely horrible company. And I found that Calvert Financial (which offers socially responsible mutual funds) has widely praised BP – I went and found some examples of Calvert praising BP for its environmental performance. I also found that BP is on the Global 100 Most Sustainable Corporations in the World list, put together by the Corporate Knights, one of the organizations cited in this article as an organization that reviews corporate social responsibility. BP is number one on the FTSE4Good UK list, a list of top socially responsible companies put out by the financial markets in London. BP is literally the number one holding in the FTSE4Good for the United Kingdom. It is the number three holding on the FTSE4Good Global list, as an example of a progressive company. BP won the top award in 2006 for renewable energy initiatives.

And Shell, the other company that was maligned in the *Los Angeles Times* piece – BP and Shell both top the annual global Accountability Rating put out by AccountAbility (a the global think tank on organizational and corporate accountability) and csrnetwork (the leading corporate responsibility consultancy in the United Kingdom). BP was number one in 2004 (the first year the list was compiled) and 2005 and number two in 2006. Royal Dutch/ShellGroup was number two in 2005 and number 3 in 2006. Simon Zadek, who is head of AccountAbility, called BP and Shell "models of corporate responsibility."

BP is a company that was vilified in a very simplistic way because one socially responsible company (Calvert) decided to cross it off its list. Yet BP has widely been held up, despite its recent spate of problems, as a model in this. So, do we eliminate BP because Calvert doesn't want it? Or do we keep it on our list because AccountAbility wants it? Whom do you choose?

Since there is no measure of corporate social responsibility, it's all somebody's opinion based upon some researcher's sense of goals, and it's very, very hard to pin down.

Another case study is the issue of pharmaceutical companies. I noticed that Allison (Fine) took a swipe at "Big Pharma," which is a code word used, I think, very injudiciously by people who like to caricature major corporations. But all it is is vitriol. It's not thinking in a nuanced way. "Big Pharma" is just meant to stop you from thinking in a nuanced way about the very complex issues that the pharmaceutical industry brings.

Let's talk about the issues that Allison raised – Kaletra and Abbott. The *Los Angeles Times* piece mentioned, "In 2005, the foundation held nearly $1.5 billion worth of stock in drug companies... On average, shares in those companies have increased in value about 54 percent since 2002. Investments in Abbott and other drug makers probably have gained the foundation hundreds of millions of dollars." This is money that will be used for very, very good programs. And what is the *Los Angeles Times*' big problem? Kaletra is sold for $8,000 (per patient per year) in the United States, and Abbott is being accused of charging outrageous amounts of money in the rest of the world because they want to make money – partly to gain for the financial resources that they invested in this drug.

Well, Abbott sells the drug for $500 (per patient, per year) in Nigeria, which is one sixteenth of the price they charge in the United States. It is offered at no profit in many countries around the world, including Thailand, South Africa, and Brazil. The cost amounts to $1.40 per tablet. At the same time as Abbott may not give it away, which last I heard, you can't invest in research to develop new products if you lose money on various things – you have to make some profit. And again, they're charging higher prices in the developed world, one sixteenth of that in the developing world. It's a huge difference. $500 a year in Nigeria.

Now, Abbott Laboratories has been widely praised by many people in the social responsibility community. It has a model, $100 million, five-year project to develop AIDS kits in Tanzania. I'm not sure if you've heard of Jane Nelson; she is the director of the Corporate Social Responsibility Initiative at Harvard's Kenney School of Government. She is widely considered *the dean*, I think one of two or three of the most responsible, respectable people on the issue of AIDS. During a talk she gave in 2006, Nelson recalled recent work she had done with Abbott Labs on a hospital project in Tanzania. "Abbott Labs models the way in competence-led philanthropy," she said.

> Abbott Labs thinks strategically about their core business and uses it to harness their philanthropy. …Abbott Labs worked with the Tanzanian government to help rebuild the capacity of a major referral hospital in …Dar es Salaam. Not only did Abbott Labs provide philanthropic monetary donations, but more importantly, they provided desperately needed human resources, including ICT and laboratory employees who helped develop a management training program as well as critical skill sets for local hospital workers.[**]

[**] This quote was taken from an online summary of Nelson's remarks at a March 21, 2006 colloquium series hosted by Case Weatherhead School of Management's Center for Business as an Agent of World Benefit. The summary was entitled, "Jane Nelson: Leveraging Public and Private Sectors to Produce Powerful Global Change" and was

Nelson called Abbott's approach "holistic" and model. Through its Global Care Initiatives, Abbott Laboratories is investing $100 million over five years in the fight against HIV/AIDS in the developing world. I'm not a big supporter of Abbott Labs – I'm just pointing out how slippery and superficial this research is because of a protest within the AIDS community. Abbott's Global Care initiative includes not only the Tanzania infrastructure program Tanzania Care, but also the Step Forward program, which in 2003 helped more than 140,000 orphans and vulnerable children. Moreover, through its Abbott Access to HIV Care program, Abbott has provided more than fifty-three million rapid HIV diagnostic tests in Romania, Botswana, Mexico, Uganda, and sixty-five other countries including every single country in Africa, free of charge or at no profit.

Now, who else did the *LA Times* piece pillory? Well, it pilloried Merck and it pilloried Schering-Plough. Well, I looked at Calvert, the company that it said does this wonderful research. Oh my God – Merck is on Calvert's "approved" list! Oh my God – Shering-Plough is on Calvert's "approved" list; it's one of its three top holdings! So, Calvert is just going after Abbott, but it is ignoring some of the other companies. And what about Shering-Plough? It just paid a $435 million to settle charges that it illegally marketed off-label use of several prescription drugs and defrauded Medicaid. In 2004, the company paid $345 to settle charges for illegally marketing its drug Claritin. This is the company that Calvert approves? And why not Abbott Labs, which has a broad kind of approach?

Another company that the *LA Times* pillories is Pfizer. Just last Friday (February 8), the AIDS Healthcare Foundation (AHF) banned Pfizer's representatives for irresponsibly marketing the drug Viagra, which leads to a direct increase in AIDS, and AHF is filing a lawsuit against Pfizer. But Pfizer is one of the top holdings in Calvert. As S. Prakash Sethi, a leading spokesman in support of socially responsible investing, says, this is cockamamie stuff. You get the same criteria applied to different companies in different ways. You cannot trust this research because it is based on, oh, we decide today that an AIDS issue in Africa is more important than an AIDS issue in the United States, which is less important than a fraud issue in Seattle. There are no objective criteria for that! It's based on whatever some twenty-two-year-old researcher decides, and somehow it is turned into something that is meant to be real.

And one other thing about this "Big Pharma" thing, which I think is very, very alarming. I went on a socially responsible web site called the *Better World Handbook*. It is endorsed by Alisa Gravitz, whom many of you might know as the executive director of Co-op America and a board member of the Social Investment Forum. Gravitz is probably one of the two or three most respected people in the social investment area. And I looked at the *Better World Handbook*'s list of companies that they think we should avoid in the pharmaceutical industry if we want to be socially responsible. Those companies are: Abbott Labs, AstraZeneca, Baxter, Bayer, Bristol-Myers Squibb, Wyeth, American Home Products, Eli Lilly, GlaxoSmithKline, Humana, Johnson & Johnson, Kimberly Clark, Merck, Pfizer, Procter & Gamble, Schering-Plough, and Warner-Lambert. Who or what do they recommend? Buying alternative medicine. This is kooky stuff; this is *not* mainstream medicine. The socially responsible community has been hijacked to a

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access on February 15, 2007 at
http://worldbenefit.case.edu/newsletter/?idNewsletter=132&idHeading=35&idNews=527.

large degree. There are a lot of well-meaning and thoughtful people it in. But there is a lot of kooky stuff in it, too, and it is driven by extremists who don't understand science. And unfortunately, that has a lot of effect on what socially responsible investment companies do. There is great danger that the social responsibility community's efforts to address very serious social issues will be undermined as a result.

I want to say just a few more things, and then I'll wrap it up.

The idea of dangerous, litmus-test investing – I want to raise the issue of tobacco. I know that the Gates Foundation actually does have a screen on tobacco investing. For the life of me, I can't understand why. I've never smoked tobacco. I hate the tobacco industry. I wish it didn't exist. Fine – that's my personal opinion. But the Gates Foundation is deciding that it wants to help the most people possible.

Let's ratchet back to the year 2000. Let's just make up a figure: The Gates Foundation has $10 million it wants to invest, and it doesn't have its tobacco screen. It might decide to invest that $10 million in Altria, a tobacco company. Or it might decide to do some socially responsible investing and put the money in Calvert's general index fund. How much money would there be today, in each case? Today, the Altria investment would be worth $43 million, and the Calvert investment would be worth $8.5 million. That's a difference of $34 million. That $34 million buys you a handful of AIDS shots, a couple of little health centers here and there, to say the least. This is $34 million! To take a symbolic stand in investing in Altria when the buying and selling of Altria stock has no effect on the stock value – if it had an effect on the stock value, Altria would not have gone up 450 percent in the past seven years. We know – there have been enough studies that show – that the buying and selling of stock based on social protest has zero effect on the value of companies.

So if I am Bill & Melinda Gates, I want to help people. I want to increase my endowment. The foundation *is* money. The foundation *is* helping people. The idea that there is somehow an adversarial relationship between those things is absolutely absurd, and it really, I think, clogs the issue in many ways.

The one interesting thing, I think, that came up in the article, which kind of mushed things a little bit, is that they mention a number of foundations that are already doing socially responsible investing. They ask why the Gates Foundation can't just do what those other foundations are doing, and (inaudible) in corporate governance issues. This, I thought, is a laugh – because obviously the *LA Times* researcher didn't do his research at all. If you go back five or six years in the social responsibility movement, the social responsibility movement skewed and totally mocked any kind of corporate governance accountability. I have a quote from Peter Kinder, head of Kinder, Lydenberg, & Domini (KLD). He is a very good friend of mine, and KLD was the first major social research firm. This is Peter Kinder on corporate transparency – the very thing that other foundations are doing: "Focusing on non-issues such as independent boards, transparency, and the like makes it easy to avoid taking real stands on real social issues of corporate social accountability."

When the excesses of 2000 and 2001 and Enron and Tyco and Rite Aid and WorldCom blew up, every single one of them was held by Calvert. Every single one. The reason was because Calvert couldn't give a damn about corporate governance and corporate transparency. They didn't understand it; it wasn't trendy, like, do they invest in nuclear energy, or does the Body Shop drop perfume bombs over the Caribbean, or something. Calvert just does not take a serious view of how complex business is. It has only become an issue since 2002 and 2003. So the very things that the *LA Times* article was trying to mock the Gates Foundation for not doing had not been part of the social responsibility agenda until it was force on them because of their naiveté and anti-business viewpoint.

I'll wrap it up with this. I decided to do what the social investment community does, which is essentially to rate things. They like to rate companies – 1, 2, 3, 4. Four is the best; it means that you have diversity programs and women's programs. One is what you get if you dare be involved in nuclear energy. Sometimes they give A-B-C grades. That is what I am going to do.

So, are the social investment community and its supporters well meaning – as an impulse, a believe that they can harness the financial markets and corporate managerial skills? "A+." Their hearts are in the right place. They care about these issues, and that's great.

Do they execute well? Is their research superficial? Is it nuanced? Is it complex? How good is it? "C-." Basically terrible. You have college kids, mostly coming out of an anti-business environment, doing this research, assigning grades and numbers to things that ultimately are incorporated in academic research programs that are absolutely absurd.

Objectivity metrics: Well, they are highly ideological. They're tainted. They use litmus test models: Nuclear energy is bad; GMO is bad. They're reactionary on lots of issues. Most of their issues tend to be quite reactionary. So I have them a "D" for their objectivity. Can they distance themselves from their own ideology?

Now, their ability to punish and reward companies for perceived social behavior through the stock market: There is absolutely no evidence – zero evidence – that the buying and selling of stock punishes or rewards companies. So, they get an "F" for falsely marketing to the people who buy their stocks that in fact by buying and selling stocks you can affect corporate behavior.

The one thing that I would give them a slightly reasonable grade on is the ability influence corporate reassessment and dialogue. I'll give them a "B" on that for reasons that they may not even understand. While they may not influence companies' stock value, the very point of doing proxy fights and creating media attention is, you get Gretchen Morgenson writing these embarrassingly sycophantic articles every Sunday in the *New York Times* about one good thing after another that corporate social responsibility groups are doing, it does have an influence on public debate. Corporate reputation management is part of what companies need to understand and address today. It is part of their brand. It is part of their ability to price-point on various things, and part of the profitability. Milton Friedman made that quite clear in his critique of socially responsible business. So the degree to which they can create public attention and crystallize public attention on various issues I think serves a good purpose. It creates the dialogue and transparency that allow discussions on these issues to happen. And there they get a "B." I wish that they could understand and not be so hypocritical about portraying themselves as something that they're not, and focusing on what they are.

Thank you.

LUCY BERNHOLZ: I love getting to go after someone who uses the term "slippery and superficial research" throughout a twenty-minute presentation.

I have pretty strong feelings about slippery and superficial research. But let me give you a little background on what I do, because I didn't come to the issue of how foundations use their endowment dollars in January with the release of the *LA Times* article. It actually has been an issue on my radar screen for almost eighteen years, now. It's a very important issue. The role that endowed funds – foundation endowments, university endowments, pension funds – play in the way our financial markets work should not be underestimated at all. So while some folks may see this conversation as framed by the *LA Times* article, that's a recent blip, but the work that has been going on has been going on for much longer than that.

In all of my work, the work that I do through my company, it's all about helping philanthropic individuals and institutions do their work better. We bring data, research, analysis, strategy, and measurement tools to people who have put their money where their personal interests and passions are. That's what I do in my day job.

I spent a lot of time thinking about the American philanthropic industry. It is actually one of this nation's greatest inventions. Its diversity, freedom, and scope are unmatched anywhere else on the planet. The system allows all of us to make decisions about how we want our charitable funds to be used. It requires only that the funds be accounted for, used ethically, and for legitimate charitable purposes.

I frame the issue this way because philanthropy is an odd beast – it is personal, fragmented, and anonymous. It is also strategic, brand-oriented, and – in the aggregate – enormous. Its most generous participants – as measured by percent of net worth given – are actually the poor, not the rich.

I also believe that whichever causes individual or institutional philanthropists choose to support, they do so because they really want to make those things better. The definitions of "problems" and "better" range across the full spectrum of American diversity – political, racial, religious, gender, sexual orientation, and geographic. A foundation for free market education is as legitimate a cause as one for the preservation of Marxist theory under our philanthropic system. Foundations can support pro-life organizations and they can support pro-choice organizations – although you probably can't find one that is working on both sides of that issue.

While the range of issues they can support is almost limitless; the number of tools that philanthropists have at their disposal is really rather small. They have seven things they can bring to what they're doing: money, knowledge, time, expertise, connections, patience, and independence. Using each of those tools well, and making the most of them in combination, is actually the biggest challenge institutional philanthropists face.

Endowed foundations are usually thought of in terms of only one of those tools – their money. So far everyone on this panel has noted the size of certain foundations as being relevant to the reasons they should do one thing or another. I'm much less of a size freak than others – I don't equate bigness with effectiveness.

I do equate strategy, knowledge, and alignment with effectiveness. Which is why it makes sense that you won't find one foundation supporting both pro-life and pro-choice activities with its grant funds. Similarly, it makes sense that a funder wouldn't support a set of organizations with its right hand –its grant dollars – while investing in other organizations with its left hand – its endowed dollars – that are odds with each other.

When I consider the chance to use 100 percent of my resources to accomplish my goals versus using 5 percent, the smarter choice is to use more of what I have available.

When I consider the opportunity to apply effective management principles to both the selection of grant investments and the selection of asset investment choices, it makes sense to do both.

Jon just talked quite a bit about what he sees as weak, mushy, slippery, superficial data created by twenty-two-year-olds right out of college and their criteria for making grant selections if one is to follow a socially responsible investment strategy. The problem with that argument is, that's exactly what foundations are doing on the other side of the house as well. The idea that this is value-free work is ridiculous. The foundations are a pile of money that is there to support a set of causes that are defined by a set of values. There are foundations that apply those values totally from the heart, and there are those doing it with some excellent strategic tools on the grantmaking side, and to say that you leave those values at the door when it comes to the investing side of the house doesn't make a lot of sense to me. It is a pile of money to be invested for the good of society. It is not a pile of money to be invested for the good of a single shareholder.

Endowed foundations are essentially in the business of choosing management teams and making investments in them. Whether they are choosing management teams on the grants side of the house, or on the investment side, it is clear that what foundations need are clear, consistent principles of good management and wise investing that carry across both sides.

I didn't make up that last idea. I stole it from a guy who knows a whole lot more about investing than anybody on this panel or anybody in this room, Warren Buffet. Buffett has often said, "I never made a good investment in a company with bad management." He has practiced this for decades at Berkshire Hathaway. Buffett also use these principles to explain his choice to invest his philanthropic dollars in the Bill & Melinda Gates Foundation. Management matters.

So what does using endowment dollars to advance a social mission have to do with choosing good managers? Just about everything.

There are more than 38,000 public companies in which you can invest your money. Obviously, we all use some kinds of screens to whittle this number down to a manageable portfolio. Many of the screens investors use are quantitative. But businesses are creatures of context and leadership – and quantitative measurements are not all that good at measuring either of those variables.

Qualitative management screens are what help at this stage and all investment management firms use them. Warren Buffett. Good management is the sign of a good investment. How to find the leaders that you are going to support, the external conditions that will force change or require innovation for a company, or how they're going to understand customer trends, or how well they manage their brand – these are what hedge fund managers, angel investors, venture capitalists, industry analysts, and, yes, Warren Buffett, use when making qualitative judgments about management.

There are sets of these qualitative management measures that look at how a company will succeed given the limits of our environmental resources – what economists euphemistically call a "carbon constrained economy" and what the rest of us – Jon and the American Enterprise Institute notwithstanding – call global warming. These measures have actually served as "searchlights" in finding companies that are leading the way on alternative fuels, clean technology, and sustainable business practices. The result – investors who use these screens have invested in Toyota, which has returned 10:1 on the dollar over the last decade, while Ford has remained flat, and GM is not doing so well. The result – a better bottom-line for the companies, a better return for investors.

There are sets of these qualitative management screens that look at social issues – whether or not a company looks at its employees as costs or as assets. This is reflected in how a company values a diverse management team, how well it treats its employees, if it seeks a workforce that represents and reflects the demographics of its desired customer base. These are all things that have actually put Microsoft on the list of leading companies to work for over the past twenty years. These are good, social management practices. These measures are helping investors identify companies with lower employee turnover, greater innovation, and more profitable research and development arms. The result – a better bottom-line for the company, a better return for investors.

Finally, as Jon pointed out, there is a need that has been made all too apparent to all of us in the last five years: to have some qualitative measurement screens about governance issues. Socially responsible investors may have come to this late, but they came to it before the businesses came to it, because they didn't come to it until the regulators got to 'em. The qualitative management measures that screen for governance standards help investors spot problems before they show up on the profit-and-loss statement, or worse, before they see the board members doing the "perp walk" on the evening news.

These are predictive measures. Environmental, social, and governance qualitative management screens help investors to find companies that are going to be profitable and successful in the economy and in the environment and with the employees they have at their disposal. They're tried and true, and they've helped investors select the best performing companies in those industries.

There are also opportunities for investors to use their role as shareholders to effect change at companies that might meet some, but not all, of the management standards. And this is where

Jon incorrectly conflates the idea that socially responsible investors are trying to use stock ownership as a way of changing the values of the company. They're not trying to change the value of the company. They're trying to change the values of the company. The reason many socially responsible investment funds will hold stock in certain companies is so that they can in fact act as shareholders in that company and promote change in that company.

All of you who go to places like Office Depot or Staples and buy recycled paper, you can thank shareholder activism, much of it led by foundation endowments. Those of you who appreciate the little recycling bag you get when you get your new HP printer cartridge can thank shareholder activists. Apple is finally beginning to adopt some consumer standards on the recycle-ability of its products, and you can thank shareholder activists. Time Warner is changing the paper it prints its hundreds of magazines on; thank shareholder activists. Coke and Pepsi have set standards for the use of recycled products in their packaging; thank shareholder activists. It's another tool, another way to infuse the values of the resource-holder and the way they decide to use those resources.

Finally, when resources are limited its always good to find a way to use them once, get 'em back, and use 'em again. Taking a lesson from community banks, credit unions, and even microfinance mavens, more and more endowments are discovering the return on investment they can achieve by using those endowed dollars as low-interest loans directly to the communities they care about, or in program related investments, gets them the biggest bang for their buck. The money is invested directly in communities or enterprises that further the foundation's mission.

In my opinion, this is an aspect of what might possible for the very largest foundations that the LA *Times* article completely skipped. And it speaks to Jon's claim that a single shareholder can't change business direction. If that's the case, you might want to have a talk with Carl Icon. But leaving that aside, the opportunity for a foundation with billions of dollars in assets to actually create entire markets is what's out there with the possibility of community investing. If you look at something like what the CalPERS, the California pension fund, has done with its Green Wave technology – a billion and a half dollars into cleantech investing – that's enough to create an entire set of industries. It creates an entire financial market. And it spurs the entrepreneurs who are now working on solar power. Think about that, ramped up a few billion dollars, and you've got a whole difference sense of what's possible, if you think about what those dollars can do in the aggregate.

There are tools, indices, investment advisors, peer organizations, and research available to help endowment managers do this. None of it needs to be created anew. The industry of social responsible investing – which supports the development of the environmental, social, and governance management screens I just described; it supports the practices of shareholder activism; and it has replicable models about community investing – currently manages one in every ten dollars managed professionally. More than $2.29 trillion dollars of the $24 trillion in managed assets in 2005 were in SRI investments. Historic trend data showing that the indices built around these kinds of investments outperform other major indices – the Domini 400 has bested the S & P 500 over the last fifteen years, and foundations with actively managed SRI portfolios have beat the S & P at one, three, five, and ten year intervals – in both real and risk adjusted returns. There is no trade-off between investing in line with an organization's mission and reaping strong returns. Doing the former may actually even improve the latter.

And this is what finally matters. Endowment directors have a fiduciary responsibility to steward the resources under their management for the public good. Not 5 percent of the resources, *all* of the resources. The tools of aligned investing – the use of qualitative management screens, shareholder activism, and community investing – allow philanthropists to develop strategies that use everything the foundation has to achieve its goals. Whatever those goals might be.

Thank you.

PAUL DRIESSEN: The Gates Foundation wants to bring the world's poor closer to our standard of living – on health, financial services and agricultural productivity. I certainly applaud this, though I don't always agree with the foundation's specific strategies and programs for reaching these goals. For instance, I think it should employ much more comprehensive approaches and strategies for dealing with malaria.

But today I simply want to examine the *LA Times* article that launched this debate – and challenge the assumptions, agendas and track record of the social responsibility movement, including the groups whose analyses and opinions formed the basis for article. From my vantage point, there are three primary issues: (1) The inaccuracies, biases and blame-casting in the *Times* article. (2) The slim chance that anyone has the wisdom or moral authority to tell Bill and Melinda Gates where to invest, especially using socially responsible investing principles that tend to be selective and ideologically based. (3) The moral standing of the social responsibility movement itself, whose practices and moral codes are often no better than the "blind-eye investing" they criticize.

Let's begin with the *LA Times* piece. It wasn't a "hatchet job" – but it sure left out a lot of important, relevant information. The article centered on three supposed victims of the Gates Foundation – three alleged miscarriages of investing justice. The *Times* says the foundation is at fault in the first two because it owns shares in companies whose old industrial facilities are "exhaling chemical vapors day and night." In fairness, the *Times* does note that literally hundreds of facilities operate in these areas. But it chose to single out three that it could link to Gates. It was just as selective in the "experts" it interviewed – relying almost entirely on investor activists. That's biased attack journalism, in my book.

The first two "victims" are young boys with severe respiratory problems. One lives in Ebocha, Nigeria – a squalid slum, even by Third World standards. The water is unsafe to drink. Sewer pipes and sewage treatment are minimal to non-existent. Many families live in wretched shanties that rarely or never have electricity. They cook with charcoal, wood and sometimes animal dung. So they're constantly breathing those fumes, as well as fumes from the industrial facilities. It's no wonder parents, children and infants alike get asthma, emphysema and tuberculosis. Somehow, though, these facts weren't mentioned in the article.

The second boy lives near Merebank, South Africa. It's much nicer, but still has hundreds of factories, industrial plants and refineries, many of them fifty years old, or older. They're in a valley, where temperature inversions can trap pollution, but they're cleaning up much more rapidly than the *Times* article suggested. Families here generally have electricity, but many still burn wood, because it's cheaper – and people also socialize around big fires in the evening. Smoke from the fires adds to the industrial pollution, but even that has been reduced significantly from what it was a ten or twenty years ago.

Yes, these facilities pollute – more than they should, and more than they would if they were operating under current US or EU laws. But they also bring jobs and other benefits to countries that are struggling through the same stages we did on our way to greater prosperity, health and environmental quality. They want to do the same. And my South African colleagues say the two plants criticized by the *LA Times* have been cleanup leaders and now pollute very little. So once again, progress on the ground is way ahead of activist claims and media coverage.

The third person, Felix, lives near Lagos, Nigeria. He's HIV-positive and has to haul ice to his home every day, to keep his medicines from spoiling. He wants new meds that won't melt in the heat and humidity – but he can't afford the $260-a-month price tag. The *Times* and its biased critics again point to Gates – because it's invested in Abbott Labs, which makes both medicines. The *Times* says Abbott has been "widely criticized" for restricting the flow of medicines to poor people in developing nations. But once again, it leaves out key information.

Felix needs the ice because he doesn't have electricity – in part because environmentalists have been successful in stymieing a lot of electrical generation facilities. One reason the medicines are so expensive is that Nigeria imposes duties and taxes totaling 34 percent on imported retail medicines. The people criticizing Abbott tend to be anti-business, anti-patent activists. They are strangely silent about the tariffs, and about counterfeit and generic drugs that often don't work and sometimes don't even have active ingredients.

The activists rarely mention UNICEF and other healthcare agencies that for years recommended and dispensed drugs that they *knew* were no longer effective in treating malaria. And they almost never criticize environmentalists who oppose the construction of coal, gas, hydroelectric and nuclear power-generating facilities that would make reliable, affordable electricity more readily available for homes, offices, factories, schools and hospitals. The *Times* and its experts are equally silent about these issues.

So once again, the *Times* is singling out a company that it can link tangentially to the Gates Foundation. In fact, the article looks to me like it was intended to increase pressure on Gates to install investor activists as "stakeholders" in the foundation's decision-making process.

Which brings me to Item Two.

Does anyone have the wisdom to sort through complex situations like these – or the competing ethical claims that surround them – and give Bill and Melinda reasonably sound and objective advice regarding where they ought to invest?

Perhaps more to the point, has anyone given these purported experts the legal or moral authority to do so? Does the mere fact that they may have a personal, ideological or financial interest in these matters make them "stakeholders" of sufficient stature that they somehow have a right to influence or even dictate someone else's investment decisions?

And if the Gates Foundation were to grant them an advisory role, what fiduciary standards should apply – if, for instance, they gave horrid, high-pressure advice that cost the foundation tens of millions of dollars, or if their dealings with other activists were less than transparent or arms-length? Who would hold them accountable? By what legal authority? And subject to what penalties for misfeasance, malfeasance, secretive dealings or conflicts of interest?

The entire concept is a Pandora's Box. Once opened, it would unleash forces that would likely be powerful, unpredictable and harmful. It would also be a monumental commitment of time and resources – a huge distraction from the Foundation's life-saving work. Worse, it could also mean Bill, Melinda and their staff end up supporting organizations and policies that would really contravene their values, mission, grant-making and programs.

Here's where the rubber really meets the road. Issue Number Three.

The moral integrity, agenda and practices of the social responsibility movement and its allied organizations are often aligned in opposition to the aspirations, interests and needs of the world's poor – whom Gates wants to help take their rightful places among the Earth's healthy and prosperous people. I believe fervently that all companies should always be honest, ethical and devoted to the well-being of our environment and the publics they serve. It's good business. It's what's expected. It's socially responsible. Thus, to the extent that "corporate social responsibility" and "socially responsible investing" concepts further these goals and help ensure that corporate executives behave ethically, I certainly support them. But that's not the issue.

As I argue in my book, *Eco-Imperialism: Green Power, Black Death*, when it comes to social responsibility as a movement or cause, what we are dealing with is largely an activist alliance that is co-opting these simple truths to promote narrow political agendas. They call themselves stakeholders, and demand a seat at the decision-making table. But they weren't elected. They have no ownership interest in the company or foundation they are pressuring. Their primary stake is an ideological interest in defining what is ethical, and making corporate decisions conform to their definitions and agendas.

By promoting concepts like sustainable development and the precautionary principle, they protect healthy, affluent First World citizens from distant, minor, conjectural or exaggerated risks – to further their political agendas. Worse, they often do so by imposing real, immediate, life-threatening risks on the world's most powerless and destitute people.

Just try to imagine what life is like every day for two billion people around the world who never have electricity – who struggle to survive on less than $500 a year – who are terrorized by killer diseases we rarely even hear of in this country – and who never enjoy the nutrition and basic necessities that we often take for granted.

Indoor pollution from charcoal, wood and dung fires causes four million deaths a year from lung infections. Unsafe water and spoiled food cause intestinal diseases that kill another five million.

Over eight hundred million people are chronically undernourished. More than two million die from starvation – and diseases they might well survive with better nutrition. Malaria infects over a half billion people a year – making them unable to work, killing two million annually (half of them infants and children), leaving countless others with permanent brain damage, and contributing massively to Third World poverty.

CSR advocates ought to be doing everything in their power to improve these intolerable conditions, and save lives. But instead, in all too many cases, they help perpetuate the problems. Abundant, reliable, affordable electricity would generate jobs and prosperity, dramatically reduce lung and intestinal diseases, help countries modernize in numerous ways, and help preserve habitats that people now chop into firewood. Biotechnology would reduce crop losses from insects and plant disease, help alleviate hunger and malnutrition, increase incomes for Third World farmers, and decrease the acreage that must be cultivated and pesticides that must be sprayed to feed growing populations. Insecticides would control insects that spread killer diseases. Just spraying tiny amounts of DDT on the inside walls of houses, once or twice a year, keeps 90 percent of malarial mosquitoes from even entering homes and reduces malaria rates by 75 percent or more. But the Rainforest Action Network and other pressure groups vigorously oppose fossil fuel generating plants, nuclear power and hydroelectric projects. Greenpeace and the Sierra Club battle biotechnology. Environmental Defense, the Natural Resources Defense Council (NRDC), and the Union of Concerned Scientists still work to prevent countries from using insecticides – especially DDT.

The foundations quoted in the *Times* article support these groups financially, help set their policies, and are allied with CSR investor advisory services like Innovest, the Calvert Group and Rockefeller Philanthropy Advisors – which also got good press in the *Times* story. Those advisory services typically oppose investing in companies like Monsanto, which creates biotech seeds – or Syngenta, which make insecticides that prevent disease. They don’t like energy and utility companies very much, either. But they do support and applaud the MacArthur Foundation, which bankrolled Environmental Defense, the Natural Resources Defense Council and Union of Concerned Scientists to the tune of $1.2 million in 2003 alone. Unlike Gates, MacArthur got good press in the article.

They like the Rockefeller Brothers Foundation, which gave $225,000 to Rainforest Action Network and Greenpeace in 2004 – and $110,000 to Rockefeller Philanthropy Advisors. The advisory services are also big fans of the Mott Foundation, which supported Environmental Defense, Sierra Club and EarthJustice with $470,000 in 2004.

Overall, foundation donations total hundreds of millions of dollars a year – for countless environmental pressure groups that delay and obstruct investment, technology, health, jobs and prosperity in these poor countries. Even worse, these foundations make their grants with full knowledge of the harmful consequences they are causing – or else they’re deliberately blind to them. To top it off, virtually none of these groups has ever admitted it was wrong on any of these issues, apologized for the harm its policies and actions have caused, been held accountable, spent money actually improving lives in poor countries, or been lambasted for ethical lapses by the *LA Times*.

The activists claim their policies preserve indigenous cultures, foster sustainable development and protect people from the dangers of "climate chaos, estrogenic chemicals and Frankenfoods." But as Kenya's June Arunga observes: "Cute, indigenous customs aren't so charming when they make up one's day-to-day existence. Then they mean indigenous poverty, indigenous malnutrition, indigenous disease and childhood death. I don't wish this on my worst enemy, and I wish our so-called friends would stop imposing it on us."

I wish the *LA Times* and its bevy of investor and environmental activists would pause long enough to consider these realities, before they presume to advise anyone – least of all Bill and Melinda Gates – on ethical investing. Simply put, the world's poor don't need a precautionary principle that protects affluent Americans and Europeans from theoretical or exaggerated risks. They need one that safeguards poor families from the real, immediate, life-threatening risks that confront them every day.

The world's poor don't need sustainable development. They need sustained development and real social justice that puts their basic needs first. They don't need socially responsible investing, as defined by agenda-driven activists. They need investment – by companies that will bring jobs, modern technologies, and responsible business practices and environmental standards – that may not be perfect, but definitely are a step in the right direction. They don't need litmus tests or feel-good symbolism, judged from the perspective of activists in affluent First World nations. They need *results*: improved lives, reduced disease, higher crop yields, more electricity and greater prosperity for families in poor Third World countries.

And they need all the help and leadership they can get from a Gates Foundation that is not hamstrung by pressure groups – or by faulty ethical, scientific and journalistic standards that restrict its investments and programs, and further postpone the day when the world's poor enjoy some of the many blessings that we too often view as our birthright.

Thank you.

WILLIAM SCHAMBRA: My finely honed moderator instincts tell me there are some differences in points of view on the panel. (Laughter.) I'd love to give you all an opportunity to respond to each other before we go to questions from the audience. Are there particular points about which you feel you've been misunderstood or misconstrued in some fashion that you'd like to clarify at this point, before we sort of throw things open?

It's particularly fascinating to me that we started with the possibility that investments undid the good that grants did, and we arrived at the point where grants might be undoing the good that investments could do. I hadn't quite anticipated that our panel might arrive at that point.

PAUL DRIESSEN: Or undo the good that the Gates Foundation is doing.

WILLIAM SCHAMBRA: Right. Responses? Comments?

JON ENTINE: I would just throw out a question to both of you (Lucy and Allison). What would you want the Gates Foundation to do – in a realistic sense, not in an overall, generic, philosophical sense? If you wanted them to take practical steps, what kind of steps would you have them take in the short term or the medium term?

LUCY BERNHOLZ: I have to be very honest with you. I'm not here to advise the Gates Foundation. But I'll tell you something: The shortcoming in the *LA Times* article in my mind is that it didn't apply an analysis of the Gates Foundation's values as reflected in its grantmaking choices, which I actually think – in the superficial way that I've looked at both their grantmaking and their investment strategy – are in alignment with the foundation's investment strategy. Bill Gates has put hundreds of millions of dollars into very important social issues, and underneath the way he has done it you'll find sets of values about disease, and values about education. Just as I said, that's the great strength of American philanthropy. You drive it by your values. Bill Gates' values about education and medicine and the types of solutions he has proposed, all of which are very business-oriented, apparently. They are right in line with his investment values. I don't have a beef with the Gates Foundation. My issue is aligning your values across both sides of the house. As far as I can tell, there isn't a mismatch.

ALLISON FINE: I do have an issue. I have several issues. One of them is – and I hear it in some of what you are saying here – there always seems to be this confusion, when I talk to a lot of people about philanthropy, about whether the money is public or private. I like to call foundation endowments "capitalist purgatory." They aren't heaven, because they money isn't sitting in their pockets. And they're not hell, because the money is not going into government coffers. There is some sort of quasi-in-between.

And I certainly disagree with Paul (Driessen) saying that we were suggesting that these rabid shareholder activists are knocking at the door and insisting on having a seat at the table at the Gates Foundation. I'm certainly not implying anything of the kind. If the Gates Foundation is so egotistical to think that they don't need outside directors, which is an entirely different situation – I think it's kind of frightening, but that's certainly their prerogative – at the very least they have created an entire entity, the Bill & Melinda Gates Investment Company, to oversee the investments of the foundation without any other screens on it. It is inevitable that some of those investments are going to counteract the good works of their grants. So at the very least, I think it is incumbent upon the foundation – which has been so focused on its grantmaking and has done a really terrific job of whittling down the number of issues that it is going to work in and being very specific about the grants that it is making – to do the same on the investment side. They don't have to whittle investments down as far. But at least they should take a look to try to make sure that there isn't the direct counteracting of the good grantmaking that they're doing on the investment side.

JON ENTINE: They do have screens.

ALLISON FINE: That's just on tobacco.

JON ENTINE: No. They have screens on everything that they do. One of the quotes in the *LA Times* piece was from the chief investment officer of the Charles Mott Foundation, Michael J. Smith, who said that companies that have good governance are generally well-managed and have a good record of profitability. So they are using market screens. Companies that are well-managed and have a good record of profitability get through the screens. There are volumes of evidence that the market works; customers buy products and use services from companies that are well-managed, and therefore they become profitable, and those inevitably are companies with good governance structures that tend to be ethical. In essence, Smith is pretty much saying that the market works. It may not be the kind of screens that you want, which are artificially layered on, but rather they ones that are actually out there, in the world, in the marketplace. Customers vote on them every day. Investors vote on them every day. And even the hero of the *LA Times* piece – one of the heroes – the Charles Stewart Mott Foundation, says that the market works.

The market has been able to choose because it shows which companies are profitable and which companies are well-managed. That's the best screen possible. The question is, do we want to have imposed, layered screens – what I would call artificial screens – or do we want to have screens that actually have some checks and balances in the marketplace with an attempt to correct it, rather than being imposed by just the impulses of individuals? And I think we have a marketplace that has shown that it has worked over plenty of time, and the very people who endorse social investing say that the marketplace is the single-best determinant in what determines is a socially responsible company.

LUCY BERNHOLZ: Right – because they are using qualitative management screens, which you want to call artificial and imposed, which I want to tell you are actually enabling (investment management companies) to choose the profitable companies over the unprofitable ones.

JON ENTINE: Smith is not saying that they choose those companies.

LUCY BERNHOLZ: No, they are – they're screening them. The art of investing requires screens. All investors are using advisors. So I want to just debunk this entire line of reasoning that this is about imposing a set of practices or distracting from a core set of work. That happens in any foundation. They're all doing it. It has to happen. Some of them do it in-house. Some of them outsource it. There is an entire industry of people from whom to choose. They bring their values to selecting those people.

Some would say that the free market is the way to go. Those are the screens to use. *Geh gesund*! They can go that way. The fact of the matter is, this is a set of screens that is actually looking for that very kind of good management that leads to good profitability, the kind of management that Warren Buffett himself says he is looking for. It's a way of framing those sets of issues. It has been shown to weed out the laggards from the leaders. As we move into an economy that is going to – whether or not the American Enterprise Institute wants to acknowledge it, whether or not this presidential administration wants to acknowledge it, whether or not *America* wants to acknowledge it – the rest of the world has noticed that it is heating up, and there is a need for alternative fuels and new sources of energy. It's going to be a way to find those companies early and get them when they are about to make the biggest move. It is not about sacrificing your bottom line, if that's what you think the role of the endowment is. It's about growing the bottom line. And there are indices that show that.

What I've heard from my right hand and my left hand here is that it's not okay to use screens they don't like, but it's okay to use the screens they do like – and the thing about those screens and this idea that the free market screens, the purely bottom-line, quantitative, profit-and-loss screens – what those screens remove are the *real* costs of doing business. It's those real costs – of extracting oil, building nuclear power plants, supporting countries that may be supporting terrorist regimes – they on you, the consumer or on your poor people in Nigeria who need a refrigerator as much as they need the vaccine that will be invented with Mr. Gates' dollars in the business-oriented, market-structured challenge he has put forth to create a vaccine that doesn't need to be refrigerated.

They are complex social issues. They are totally intertwined. You can't separate the one from the other. And to claim that the entire set of screens that are used on one hand are valid, and that companies should be socially responsible, but that another set of screens that you simply find don't match your ideology are therefore "kooky" and inappropriate is a completely false and empty argument.

JON ENTINE: I have one minor point relative to the ad hominem attack against the American Enterprise Institute. I am not the American Enterprise Institute. My name is Jon Entine. If you have a criticism of something that I say, you can call me Jon.

LUCY BERNHOLZ: Okay, I'll call you Jon.

JON ENTINE: And I do not –

LUCY BERNHOLZ: (Cross talk.) You're not the American Enterprise Institute. But you're on the record that tobacco doesn't need to be screened and that there is no global warming. So, your prediction that shareholder activism is a farce, I would say – that you're Jon Entine.

WILLIAM SCHAMBRA: Let's let Jon finish.

JON ENTINE: I do not vet any idea through anyone at the American Enterprise Institute. I can speak for myself that I've never had to clear any idea with them. As Henry (Olsen, in the audience) would know, my ideas make many people uncomfortable. Many people don't believe in them. I have views that cross the political spectrum. And the idea of taking any organization and assigning an individual who works for that organization as representing that organization is a kind of simplistic thinking. I represent my ideas. There plenty of people at the American Enterprise Institute whose ideas contradict mine, and there are plenty of people at the Brookings Institution and elsewhere who heartily endorse my ideas. So I think –

LUCY BERNHOLZ: Fine. I'll remove the American Enterprise Institute. Jon Entine has told us global warming doesn't matter. Jon Entine told us –

JON ENTINE: I never mentioned global warming in any article.

LUCY BERNHOLZ: (Cross talk.) Jon Entine has talked about tobacco –

JON ENTINE: I never mentioned global warming –

LUCY BERNHOLZ: Yes, you have. I'll find it.

JON ENTINE: I've never mentioned global warming in any kind of way, putting it down. And this kind of groupthink that people who are in any way affiliated with conservative organizations are automatically ideologically monochromatic –

LUCY BERNHOLZ: Really!

JON ENTINE: – and therefore you can isolate them and ghettoize their opinions –

LUCY BERNHOLZ: Ah ha!

JON ENTINE: – is a real inability to look upon issues in a structural kind of way.

LUCY BERNHOLZ: (Cross talk.) As opposed to the "kooky social activists." You have the same kind of language.

WILLIAM SCHAMBRA: Okay, we need to get Paul into the discussion, and then we'll go to questions from the audience. Paul!

PAUL DRIESSEN: Sure! (Laughter.) I don't think we have time to really get into global warming. I am a skeptic of climate catastrophe theories. I agree that there is some global warming going on, but that's for another day and another time – when we have at least an hour or two to devote to at least touching on that issue, which is causing tremendous consternation in Europe right now for a variety of reasons, how they're going to come to grips with their climate hysteria.

I agree that these issues are very complex and intertwined, and I think there have to be screens. My point was not that I want my screens used and not somebody else's. I want some of these issues that I raised entering into the conversation and the discussion about where to invest – and this means not just where Gates invests, but where foundations like Mott and Rockefeller are putting their money – addressed. What they're doing, I think, is dumping the costs of their doing business off on the world's poor by attacking biotechnology, electricity generation, and the use of insecticides, all of which can be life-saving for people way beyond this room and way beyond our Atlantic or Pacific coasts. And that's important.

I totally agree with this idea about investors and outside advisors, and I think it might be a great idea to have some people from the Congress of Racial Equality and Atlas Economic Research Foundation and some of the think tanks around the world – Latin America and Africa and elsewhere – on the advisory staff (a) for the Gates Foundation, (b) for Mott, the Natural Resources Defense Council (NRDC), the Rockefeller Brothers Fund, Innovest and some of these others, because they can bring some realities to the fore that have been ignored or shunted off to the side, and bring some attention to the impact that these environmental standards, anti-mining activities, and anti-oil and gas, anti-electricity, anti-biotechnology programs and policies are having on people in these developing countries. I think that would be to the good.

It would also be very interesting to have the same standards of honesty and accountability apply to Mott and Sierra Club, for example, or NRDC – for example, on mail fraud and what kinds of solicitations go out raising money for some of these organizations that play fast and loose with the facts on some of their web sites and so forth. If it is wrong for a for-profit corporation to engage in deceit and misrepresentation to get investors to come on board, it is equally wrong for Sierra Club and NRDC to engage in deceit and fraudulent misrepresentations when they solicit through the mail, through their web sites, or through some television program for money coming in to their organizations. I'd like to see some of those same standards of honesty, integrity, transparency, and accountability apply to the not-for-profit sector, particularly these activist groups.

LUCY BERNHOLZ: The standards of accountability, transparency, and governance for the nonprofit sector – both the Gates Foundation and the Rockefeller Foundation, which have partnered to launch $150 million biotech "second green revolution" in Africa, and – I haven't investigated this so I'm going on what you said, which is dangerous – the work of the Charles Stewart Mott Foundation, NRDC, and Sierra Club – they're all operating under the same standards of transparency. They are all held to the same standards of accountability. There isn't one set for those that take a market-oriented approach to their grantmaking and another for those that take a political- or a social-justice-oriented approach to their grantmaking. So I'm not sure what you're asking for that doesn't already exist. The standards exist already. If you think they need to be raised, that is a different discussion than this one, but they will be raised for the Gates Foundation and the Rockefeller Foundation as they would be raised for the Rockefeller Brothers Fund and NRDC.

They are in the same universe; that is the great diversity of this sector. The two counteracting points of view are what can get moved upon – which makes it very difficult, then, to see how you would have, going back to Bill (Schambra)'s comment that now you've got grants counteracting investments – the fact of the matter is, there is no alignment in philanthropy. They are individual organizations that can do whatever they want, and they will do things that counteract what the other does. I'm quite sure, if we were having this conversation about the Lucy Bernholz Foundation and the Jon Entine Foundation, there's a very good chance that the strategies we would be pursuing to solve the problems as we define them would be rather different –

PAUL DRIESSEN: Unless you're from the Allison Fine Foundation. (Laugher.)

WILLIAM SCHAMBRA: Questions from the audience?

JOHN EDIE, PricewaterhouseCoopers: The suggestion that there is 95 percent investing and 5 percent in grants isn't quite right. I think it's 100 percent investments, and then you have 5 percent that is either income or return that is used for grants. At the end of the year, it is still 100 percent investments. It's not a criticism of or a question about any of your points. I just want to clarify that you don't take the investment pile and say, 95 percent of it is invested, and 5 percent of it goes somewhere else.

ALLISON FINE: People just get confused if they think you may be talking about 105 percent of a foundation.

JOHN EDIE: You could call it investment yield or or investment income.

ALLISON FINE: Yeah, yeah, I know.

WILLIAM SCHAMBRA: Mr. Edie, before you sit down, do you have any thoughts on this? I should point out that Mr. Edie was the long-time general counsel for the Council on Foundations. Do you have any thoughts or reflections on this question about the alignment of investments and grantmaking?

JOHN EDIE: Part of the reason I came here is because I don't have a strong feeling about it and I wanted to hear both sides. I think one of the nice things about the independence of the philanthropic sector is that you can decide to do it or not decide to do it.

I did have one question for Lucy (Bernholz). You used the term "fiduciary duty" – I don't know if I'm quoting you correctly – but I think it was that boards have a –

LUCY BERNHOLZ: Fiduciary responsibility for the 100 percent, not for the 5 percent.

JOHN EDIE: Right. And I assume you meant that not in a legal context. I mean, there are fiduciary duties or responsibilities under state law, coming out of common law. For example, states attorneys general can intervene if you're in violation of a fiduciary duty. But I assume you meant a more general responsibility, not a legal responsibility.

LUCY BERHOLZ: No. They're responsible for the entire corpus and how it is stewarded.

JOHN EDIE: Right. But they don't have a fiduciary duty to do what you're suggesting.

LUCY BERNHOLZ: No, they don't. They have a fiduciary duty to steward those assets within the bounds of the law. How that fiduciary responsibility is defined – and you're the expert here – is, no fraud, no abuse. It doesn't say you've got to go and do this or that with the money. However, there are foundations that have made very strict statements that they believe their fiduciary responsibility for the management of the entire corpus of the endowment requires them – this is a self-imposed fiduciary responsibility – to steward all of their assets in line with the values with which they pursue their grantmaking. I don't mean to say that there is this legal requirement. Now, ask me if I think there should be! We'll have a different conversation. But that's not the way the law reads, no.

ALLISON FINE: I thought initially where you were headed, Mr. Edie, with your question was the recent trend of a couple of very large new grantmakers, the Omidyar Network and Google.org – within their pots both giving out grants where they're not expecting a financial return, obviously, *as well as* loans and investments in new companies that they think of as a part of their philanthropy. I think this is a very interesting developing, the blending of philanthropy and investment out of foundations or within foundations themselves. And I'll be very curious to see if that continues to increase over the next few years.

HENRY OLSEN, American Enterprise Institute: I had a question for Ms. Fine. You were saying that, with respect to the Gates Foundation, the right hand ought not to violate what the left hand is doing, that the investments ought not "directly contradict" – I think that's the phrase you used – the purpose of the grants.

ALLISON FINE: That's right.

HENRY OLSEN: My question is, how do you define a direct contradiction? Let me use an example why that might be for me a difficult concept to grasp, and why I think, for a director, it would be helpful to have a clearer picture of the contradiction.

Let's say the Gates Foundation is training medical personnel in Africa. If they were to make an investment in a company the primary business of which was to contact trained medical professionals in the Third World and encourage them to emigrate to the First World, I can see where that would be a direct contradiction. You train, on the one hand, and then you bring them out, on the other. On a broader definition, the entire health network in the developed world has a need for trained professionals and by its nature attracts emigration of trained professionals from the Third World to the First World. If one defines "direct contradiction" too broadly, then the Gates Foundation ought to be barred from investing in the entire healthcare sector because they have a demand that produces an undesirable result. So my question to you, Ms. Fine, is – help me think through this – how do you define that in a way that is neither too broad but is actually consistent and strict enough that it can provide guidance?

ALLISON FINE: I'm going to give you a witty and robust non-answer to your question – but it will be witty and robust. There is no answer to the question. This is enormously complex, and I don't want to pretend that it is otherwise. As Jon has pointed out, many of these companies are large, multi-national organizations with subsidiaries, and it is complicated. The point I want to make is, I think it is incumbent on an organization like the Gates Foundation to think it through and to develop for itself criteria with which it is comfortable.

I used to run an organization that provided evaluation tools for foundations and nonprofits, and the biggest stumbling block in developing any set of criteria always was the paralysis on the front end, the thought on the part of the organization that was doing the measuring that they didn't have the criteria, so they couldn't get started. We always tried to encourage people to get comfortable with themselves and say, nobody can have the right criteria going out of the gate. The idea is to get started, and the idea is to be comfortable with the notion that they are going to change and modify and improve those criteria over time.

I won't confess to say that I know enough about both the investments of the Gates Foundation or the grants to be able to develop specific criteria here with you today. But I do feel strongly that it is a duty of the foundation to have the conversation, internally.

JON ENTINE: I'd like to pick up on that because I think it is a very important question. There was an article – I'm not sure if I mentioned it – in *Foreign Affairs* just this past month about some of the problems in financing health programs in Africa ("The Challenge of Global Health," by Laurie Garrett, January/February 2007). One of the points it made was that there has been a myopic, stovepiping of money into certain kinds of programs like drug programs, for instance, and even HIV – that's also been a controversy, the question of are we spending too much money on HIV programs in Africa. And what you have in many situations is that to some degree there is a contradiction between spending money on those programs and potentially undermining the health care structures that exist somewhat fragile-ly but in some cases somewhat successfully, as has historically existed in the past twenty or thirty years in Mozambique, to the point that maybe there is some contradiction between the way their health care structure is set up now and maybe we should rethink something like that.

So you have a situation where the Gates Foundation is spending a lot of money on drug interventions, buying drugs, setting up those kinds of things. You're overlaying a health care system, to some degree. I have an article coming out on this called "When Santa Comes to Town," where these health organizations come in and they set up programs for two or three years, all well-meaning people, all caring about it, but in some cases the cure may be worse than the disease. It's very complicated, and NGOs think about it all of the time. They are not oblivious to this; they're caring and concerned about it.

But this goes to your point about what can actually be done. Should the Gates Foundation be thinking of these consequences? The Gates Foundation knows – and I won't speak for them, because this is just cursory, this is just my sentiment – the Gates Foundation knows there are these kinds of nuances and knows that there are these contradictions. But what they would say to you in a second is, we don't have the resources to set this up. We could set it up, but we'd be taking away from what we think that we do and have a skill set in doing. We want your organizations to do it. We don't want to be oblivious and pretend that you don't have information that we can value. And I'm speaking for them not because I really know what they're saying. I'm imagining what they are saying. They're saying –

ALLISON FINE: That they're not the American Enterprise Institute.

JON ENTINE: – that they don't want to be setting up these kinds of programs because it is wasteful for them when you guys – the people on the ground - have the skill set to do that. I don't think they want to be insulated. They don't want a Chinese wall and say, we don't want to hear from you. What they don't want to do is feel the pressure that they have to turn over their practices to other people.

A lot of this is just nuance on their part. They felt very defensive and attacked, I think, about people saying, turn over this to the Calvert Group. There was a kind of crudeness to the LA *Times* piece – which doesn't reflect the nuance within the community itself, but does reflect what happens when you have an article which tried to boil it down and present it in that kind of way.

So I don't think there is necessarily a negative here. I think there's a possibility that you can take the values that you guys have in examining what goes on on the ground and bring that information. The Gates Foundation doesn't want to be insulated from it. What they don't want to do is be put in the position of having to be the ones to set up their own mega-infrastructure, as the ones to institute it. There's no indication that they don't want to take this information in. What they don't want to do is be force to process it through a set of structures that are imposed on them from the outside. There's a big difference.

LUCY BERNHOLZ: There *is* a big difference. And one of the things that is very interesting to me about your question is that I would argue on that particular example and probably on some of the other ones they deal with, they actually have all of the expertise in-house. Remember, these staffed foundations are organizations that have made a decision to hire experts who are theoretically experts not just in how you find a clinic to support in Nigeria, but in a larger, systemic understanding of how health works.

They also have either on staff or at their disposal people who understand that same set of issues from the investment and financial capital side of the game. By separating the two, they are isolating themselves from the expertise they are paying for already, I would argue. To develop a grantmaking strategy in health that doesn't take into account – and I'm not saying that the Gates Foundation is doing this, but it is typical of foundation practices in general – doesn't take into account the expertise they may very well have in-house on the health industries that affect the way that clinic or set of clinics or set of policies or set of inventions is going to be deployed – you can't separate one from the other! Yet we routinely do it.

PAUL DRIESSEN: Which brings me to something that I've raised with some of the Gates people and others relative to malaria, for example. There is a tremendous focus, which is badly needed, of course, on vaccines and future drugs. But I think there should be more of a focus on truly comprehensive programs in addition to what they are doing right now – not in exclusion, but in addition – truly comprehensive programs that can save lives right now, today, by utilizing a broadened, more modernized version of what Dr. Gorgas used in Panama during the building of the Panama canal to wipe out 95 percent of the malaria in that area a hundred years ago.

We're not doing a lot of that today, and part of the reason is that there is too much emphasis on things that are politically correct, like bed nets. There's the "Nothing But Nets" campaign from the National Basketball Association and others. And I think there is a role for bed nets, but there is a role for insecticides. There's a role for DDT as a spacial repellant, more than anything. And I think it hurts when the Gates Foundation, for example, is promoting bed nets and not talking about these other things, (a) because it makes it look like the bed nets are a silver bullet, which they certainly are not, and (b) because their prestige, influence, and reputation make a lot of other people think that the bed-nets approach is a silver bullet. We need all of the various strategies, and if we implement them all, we can wipe out 75, 80, 90 percent of the malaria within two, three, four, five years in a lot of these countries over in Africa where it is decimating so many populations.

WILLIAM SCHAMBRA: I should also point out that your book is available –

PAUL DRIESSEN: I have a few copies here.

MARTIN MORSE WOOSTER: My question for Ms. Fine and Ms. Bernholz is, where do you stand on the issue of term limits for foundations. If the Gates Foundation was term limited, then they'd have a fixed period of time to get rid of their investments –

LUCY BERNHOLZ: They have already established one for themselves. They are going to spend it out fifty years after the death of either Bill or Melinda – whoever dies second. They've self-imposed it.

MARTIN MORSE WOOSTER: Okay. Then as a general question, where do you stand on that issue?

ALLISON FINE: It's an interesting question about the perpetuity of philanthropic institutions and whether they should just continue on and on. It has certainly been my experience that the longer these institutions go on, the slower moving they are and the more planning cycles they go through. It becomes very confusing as to what they original intent of institution may have been versus the focus of the staff becomes.

I think it would behoove the philanthropic community to continue to have this conversation about whether we're over-institutionalizing philanthropy in some ways.

LUCY BERNHOLZ: Making a decision about establishing a perpetual endowment should be done in line with what it is you want your financial resources to accomplish. Too often, one cart goes before the horse. There are many other options besides endowing a foundation in perpetuity that can affect the kind of change in the world that people with these financial resources have. For most of the last hundred years, an endowed foundation has been the most prominent among those. But the number of options now available are many, and it should be part of an aligned strategy that says, this is the way I'm going to put these resources to best use. For some issues, there is probably a very good argument to be made for endowing something in perpetuity. For other issues, less so. Too often, however, that decision is simply made absent any attention to what it is people are actually trying to accomplish with the dollars.

ALLISON FINE: The life cycle of a foundation is actually pretty close to that of a banana. In the beginning, you can't work with them because they don't know what they're doing and they have live donors and they're changing their mind and their strategy every other week. And when the get too mature, you can't work with them because they're just stuck in the mud and they can't figure out how to change direction anymore. So you have just this little window, like a banana, where it's good. And I think that's something foundations should pay more attention to.

WILLIAM DENNIS: Quick comment. Congratulations on the banana, by the way – it's a great metaphor.

ALLISON FINE: Off the cuff, I might add.

WILLIAM DENNIS: All of you in one way or another said that the great excitement about American philanthropy is its diversity and variety. It seems to me, then, that the public interest in American philanthropy comes in that diversity and variety. And therefore, for instance, if we take DDT, the foundations for DDT and the foundations against DDT are both pursuing the public interest. One of them may be foolish, wrong, and short-sighted, but the public interest is in having that argument take place and debated. It seems to me that sometimes the panel is arguing that the public interest is particularly helped by going a particular way with a particular issue. And I don't think that's fair to the whole question of philanthropy – if the original assumption, which I'm not sure I buy into, that the great excitement about American philanthropy is its diversity and variety is true.

ALLISON FINE: So you've not bought anything on this panel today. You're really regretting coming, aren't you. (Laughter, cross talk.)

PAUL DRIESSEN: Bill (Dennis), you raise a good point on the public interest, not only how it is defined but how it is perceived by different people. I have that discussion more often than I care to think about within my own family, with my siblings.

The DDT thing is a good example for a different reason. And that is that we had a case there where NRDC and a couple of other organizations, well-funded for this effort by some of the foundations that I have criticized, went after DDT big time based on Rachel Carson's book and various other accusations that were made against this chemical. William Ruckelshaus impaneled a scientific advisory group that spent almost a year looking at it. He never attended one hour of hearings. He never read one page of their report. He simply said, I'm banning DDT. He said that it wasn't a scientific decision, but rather a political decision. By then, it had become a political stink and it wanted it to go away. The net result was, it wasn't just banned in agriculture in the United States, it was banned in agriculture all over the world – which is fine, as far as I'm concerned. We were overusing it, and we were developing a lot of resistant insect strains. The bad thing was that it was pulled out of the healthcare arena, and it was pulled out of malaria control in particular. And we've lot approximately two million people a year ever since. Keeping it in use would have saved 50 percent of those people, easily.

So we're talking about thirty or forty million deaths that could have been avoided. And that's where the real public interest comes back to the fore and becomes a real issue for reasoned debate and not a juggernaut in public policy the way it was with DDT. And as I fear, it's being done right now on global warming, where the skeptics – and I'm not a skeptic of global warming; as someone trained in geology and field ecology, I know it has happened up and down, up and down, for millions of years and it is driven largely by natural forces. But when we stifle debate and stigmatize people who don't buy into Al Gore's approach, we have a real problem in terms of defining – finding, really – that public interest.

WILLIAM SCHAMBRA: I'd love to get in one last comment, but I fulfill my pledge to end these sessions pretty promptly at two o'clock, which it is now. So let's thank our panel for a terrific discussion.

(Applause.)