

Business Can't Solve the World's Problems — But Capitalism Can

by Dan Pallotta

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Business and capitalism get conflated – in our media, our language and in our thinking. They are not the same thing. One is a sector, the other a methodology. By inextricably linking the two, we confine the practice of real, turbo-charged capitalism to business, and we dangerously limit the capacity of non-business organizations to innovate, fund, and bring to scale the kind of breakthrough ideas that will begin to solve the huge social problems we face today.

To be sure, business can change the world. That is one of the things it does, consistently. Innovations such as the assembly line, the car itself, the distribution of electricity and gasoline, now the iPad, Google, and so on, have by many measures made the world a better place. Indeed, as Carl Schramm writes in his provocative essay, “All Entrepreneurship Is Social,” the fashionable new term “social business” in some ways “diminishes the contributions of regular entrepreneurs...people who... create thousands of jobs, improve the quality of goods and services available to consumers, and ultimately raise standards of living.” He uses the refrigerated box car and its achievements in reducing food-borne illness and saving millions of lives in the process to make his point.

Business will move the great masses of humanity forward with advancements in pharmaceuticals, materials, process, and technology – but it will almost always leave 10% behind. It will almost always leave unaddressed humanity's most disadvantaged and unlucky. Even social business will not address those issues for which markets cannot be developed. I serve on the board of a center for the developmentally disabled. More than anything, its clients need love. How do you monetize that?

This is where philanthropy comes in. Philanthropy *is* the market for love. The word itself derives from the Greek for “love of humanity.” Philanthropy and, specifically, the charities that benefit from it and that are chartered to solve social problems can address those people and issues that business leaves behind. But they can do so effectively only if we allow them to use the tools of capitalism – tools that the sector has thus far been denied, nearly wholesale.

We have two rulebooks – one for charity and one for the rest of the economic world. We blame capitalism for creating huge inequities in our society, and then we refuse to allow the “nonprofit” sector to use the tools of capitalism to rectify them.

This nonprofit rulebook discriminates against charities in at least five different areas: compensation, marketing, risk taking, time horizons, and capital itself. We allow people to make a fortune doing any number of things that will harm the poor but crucify anyone who wants to make money helping them. This sends the top talent coming out of the nation’s best business schools directly into the for-profit sector and gives our youth the mutually exclusive choice between making a difference and making money. This we call ethics. We let Apple and Coca-Cola plaster our billboards and television sets with advertising, but we are appalled at the notion of important causes “wasting” money on paid advertising. So the voices of our great causes are all but silenced, and consumer products get lopsided access to our attention, 24/7. This we do in the name of frugality. Amazon was permitted to forgo investor returns for six years to build market dominance. But if a charity embarks on a long-term plan with no return for the needy for six years, we are outraged. This we call caring. We aren’t upset when Disney makes a \$200 million movie that flops, but if a \$1 million charity walk doesn’t make a 75% profit to the cause in year one, we want the attorney general to investigate. So charities are petrified of exploring new revenue-generating methods and can’t develop the powerful learning curves that the for-profit sector can. This we call prudence. We let for-profit companies raise massive capital in the stock market by offering investment returns, but we forbid the payment of a financial return (“profit”) in charity. The result? The for-profit sector monopolizes the capital markets, while charities are left to beg for donations. This we call philanthropy.

Combine those five things and you have just put the humanitarian sector at an extreme disadvantage to the for-profit sector. Yet we still expect it to solve the world’s problems.

Our social problems are gigantic in scale. We need gigantic responses to them. And if we freed the humanitarian sector to use the tools of capitalism, we could bring private ingenuity to bear on those problems, and we wouldn't have to depend on the government to fill the gaps.

Where would all the money come from? From us! If we were to give the humanitarian sector the right capital, talent, time, and ability to innovate, it could build the kind of demand for philanthropy that, say, Apple builds for music on iTunes (which, by the way, stimulates the same reward centers in the brain as giving). Then we'd be on our way to the kind of scale we need.

Americans give about \$300 billion to nonprofit organizations annually, most of it to education and religious institutions. Only about 15% of that – \$45 billion – goes to health and human services causes. If we could use the tools of capitalism to increase charitable giving in the U.S. from 2% of GDP to just 3%, that would amount to an additional \$150 billion in annual giving. If that money went disproportionately to health and human services causes, it would amount to a quadrupling of donations to that sector. Now we're talking scale. Now we're talking about big change.

Business cannot solve all the world's problems. But capitalism can.

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Dan Pallotta is an expert in nonprofit sector innovation and a pioneering social entrepreneur. He is the founder of Pallotta TeamWorks, which invented the multiday AIDS Rides and Breast Cancer 3-Days. He is the president of Advertising for Humanity and the author of *Charity Case: How The Nonprofit Community Can Stand Up For Itself and Really Change the World*.

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