



# Why Capitalism Helps Giving to Charities

*Do you have a "Giving Pledge" factored into your financial plan?*

Capitalism is the best economic system in practice for charitable giving because it is the only one that gives us the freedom to allocate our capital as we see fit. But so many people equate capitalism with greed and think that the profit motive is not compatible with giving. This is a wrongheaded notion. This is not saying that capitalism is free of greed. There is plenty of greed involved, but no more so than in command economies. Economics 101 teaches that capitalism, based on the private ownership of capital goods and the means of production, allows people to use their assets as they please.

That applies to giving, as well. Business owners have every right to give or not. If they do not, then we can call them greedy, but it is not the fault of our system that they don't.

## **We Are a Giving Country**

We have so much wealth and so much capacity for generosity in our system because we incentivize innovation and productivity. Gallup® did a survey to find out which countries are the most generous based on the percentage of people who give to charity, volunteer or help others.

The United States, its people, its foundations and its companies donated roughly \$410 billion last year - or about 2.1% of its own GDP. In fact, the amount Americans donated was more than the entire GDP of all but about 40 countries in the world. But the United States is not the most generous country on the list by Gallup's metrics - the most generous countries are Indonesia and Australia, then the United States and New Zealand.

## **The Giving Pledge**

In 2010, Bill and Melinda Gates and Warren Buffett along with 40 of America's wealthiest individuals and couples joined together to create the Giving Pledge - a commitment by the wealthy to give more than half of their wealth away. So far, the Giving Pledge has enlisted the support of over 200 individuals and families.

MacKenzie Bezos, one of the richest people in the world with an estimated worth of over \$36 billion following her divorce from Amazon's Jeff Bezos, just signed the Giving Pledge promising to give at least half her fortune to charity. In a letter announcing her decision, MacKenzie wrote:



*My approach to philanthropy will continue to be thoughtful. It will take time and effort and care. But I won't wait. And I will keep at it until the safe is empty.*

MacKenzie was one of 19 new Giving Pledge signatories announced recently, and she hopes to inspire others to do the same. And according to the most recent annual Forbes list of the world's billionaires, with 2,208 billionaires around the globe, the Giving Pledge has a lot more room to grow.

## Capitalism vs. Planned Economies

In centrally planned economies like Cuba, the state owns the means of production, and profits are supposedly distributed to all. In these systems, the governing bodies give the wealth of the nation to whom they choose. But resources are usually not handled optimally or fairly. In most cases, they are unevenly distributed to cronies or the current leadership's pet projects. When that happens, it is not the fault of socialist philosophy, but of the leadership.

In the majority of cases where there is a monarch or similar powerful group, that ruling group has the most opulent lifestyle in the kingdom. This goes for Tudor monarchs of old all the way up to modern-day North Korea. In those economic systems, the powerful keep the resources and wealth to themselves, only sharing enough to keep the peace and stay in power.

## Why Taxes Matter

In our world, we force giving through wage laws and a system of taxation and redistribution both to pay for collective goods and services and for simple transfers to the needy. Many of our great capitalists give away far more than our tax system requires of them because they are passionate about donating, they may get additional tax benefits – and they recognize that our system allowed their enterprises to exist and supported their success.

For whatever reason, they give a lot because they were able to produce a lot. That was only possible because they had the incentive to be productive. This doesn't just go for the ultra-rich and big multinationals out there. In real world experience, most small business owners also make giving part of their daily lives.

This is not true in other systems of economics. In systems where fewer economic incentives exist, there is less excess capacity for giving to begin with.

It is fashionable to confuse capitalism and greed. When we think of our free-market economy, we think of the movie "Wall Street," and Gordon Gekko's infamous declaration that "greed is good." We often reduce every enterprise that seeks profit to a purely profit-seeking enterprise. In truth, companies big and small are there to provide not just for shareholders, but also for workers, customers and the community.

While you might not be a billionaire ready to sign the Giving Pledge, how does philanthropy factor into your financial planning? Let's discuss.

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