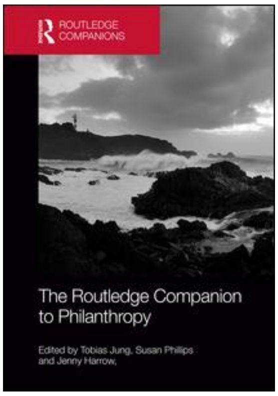

The Routledge Companion to Philanthropy

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Publication details
https://test.routledgehandbooks.com/doi/10.4324/9781315740324.ch23
Ekkehard Thümler
Published online on: 17 May 2016

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Financialization of philanthropy

The case of social investment

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Until very recently, the markets were widely regarded as the paradigm of a rational organization of society (Friedland and Robertson, 1990). Just like other sectors of society, philanthropy has extensively integrated economic methods and values into its structures and operations. As a result, an organizational field that was traditionally based on the logic of gift giving increasingly rejects the idea of an unconditional distribution of goods and embraces the rationales, techniques and language of markets. This development, known as the 'marketization' of the third sector, is characterized by a heightened emphasis on competition and earned income, the celebration of (social) entrepreneurship and the emergence of new actors, such as for-profit providers and donors (Salamon, 1993; Weisbrod, 1998; Eikenberry and Kluver, 2004).

Meanwhile, important changes have occurred in the economic sphere, as well as in society at large, that may require a modification of this perspective. In recent years, a growing body of scholarship has found that financial markets and the financial industry are increasingly overriding and dominating the real economy (Epstein, 2005; Windolf, 2005a; Krippner, 2011). Moreover, some researchers suggest that the logic of financial markets has spread through society at large (Martin, 2002; Epstein, 2005; Davis 2009). According to this perspective, finance has become the paradigm of a rational and value-maximizing type of social action and thus a generic 'model of how things are done' (Davis, 2009: xviii).

There is a long history of attempts to transfer economic tools and terminology to the field of philanthropy which is itself embedded in societal environments that are undergoing financialization processes so there are good reasons to assume that these seismic shifts have not left the charitable sector unaffected. The surge of interest in microcredits and, more recently, social impact bonds, are particularly prominent expressions of these developments, but they capture only the most visible aspects of what may turn out to be a much more profound transformation towards a 'social-purpose finance ecosystem' (Salamon, 2014: 6).

Approaching the concepts of finance and financialization from within an economic context, this chapter examines whether there is evidence for a process of financialization of philanthropy, what it consists of, and what it may entail. A comparison between structural characteristics of the financial sphere and of current developments towards a 'social investment' paradigm of philanthropy in Europe and the US provides numerous parallels, exemplifying the transformation of the charitable sector along financial templates. The chapter then argues that financialization is merely one part of a broader project of marketization, aimed at reshaping philanthropy in accordance with the paradigm of financial capitalism, thus completing and radicalizing previous processes of marketization. Finally, the chapter shows that the concept of financialization equips scholars with considerable analytical and theoretical leverage. In the first place, it provides a coherent blueprint of new actors, ideas and practices with a considerable potential to reshape the organizational field of philanthropy, as well as the very understanding of what it means to act in charitable ways. In addition, it helps to explain the emergence of social investment philanthropy and to predict the further course of events. In particular, it helps in assessing the possible consequences of this transformation, which at present are only addressed at the margins of academic and practical discourse.

Financialization and the financial sphere

Financialization, in a broad sense, means the 'increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies' (Epstein, 2005: 3). The term has been used to designate a range of diverse phenomena, such as shifts in the dominant sources of economic revenue, the rise of the concept of stakeholder value as a dominant mode of corporate governance (Krippner, 2011) and changes in individual behaviour, including a rise of both private debt and private investments (Deutschmann, 2011). Importantly, processes of financialization are also spreading beyond the economic sphere. Scholars have diagnosed processes of financialization of the state (Davis, 2009) and of daily life (Martin, 2002; Davis, 2009). Recent analyses find evidence of financialization in domains as diverse as sustainability reporting (Hiss, 2013), infrastructure (O'Neill, 2013), microcredits (Mader, 2014) and the arts (Velthuis and Coslor, 2012).

These considerations suggest that financialization should be regarded as a broad and ongoing, yet uncoordinated and fragmented process, which may take different forms according to objectives and circumstances. The financialization of philanthropy is an overarching project that is not confined to more singular developments, such as the spread of microcredits. Rather, it denotes the comprehensive transformation of this field along the template of finance. Hence, gaining theoretical leverage over the phenomenon requires a better understanding of the underlying paradigm, that is, knowledge of the structures and processes which constitute the architecture of finance. The following section outlines the characteristic properties of this system and considers how it differs from the organization of the primary economy it allegedly transforms.

The characteristics of financialization

Finance is no longer regarded as the handmaiden of primary economy. Rather, it has evolved into a distinct 'sphere' (Knorr Cetina and Preda, 2012: 4) that is, a field of economic activity *sui generis*. The casting of it as a sphere, rather than an organizational field, is important in that it denotes a wider reach. While a field is confined to the actors and practice, institutions and logics which constitute the field (Scott, 2008), the former refers to a domain that exerts influence beyond its actual boundaries. The financial sphere can be distinguished from the three other economic spheres, namely production, consumption and exchange, by its particular function: to provide credit to the primary economy. Finance thus plays a crucial role in the process of production and serves as an important precondition for economic growth (Knorr Cetina, 2012: 119–122).

Finance centers around particular places and modes of activity, such as stock exchanges and the global system of digital over-the-counter markets (Knorr Cetina, 2012: 123). Compared to much of the exchange that takes place in the primary economy, financial markets have become separate 'transactional worlds' which rely in important ways on idiosyncratic technologies, flows of information and related practices (Knorr Cetina, 2012: 130).

New actors and activities in finance

The financial system is dominated by a new class of actors. In countries such as the US and the UK, the center of gravity has shifted from commercial banks to actors in the financial markets, such as investment banks, brokerage agencies and pension funds (Windolf, 2005a: 32–41; Davis, 2009). Banks as the traditional providers of credit have also changed and are now deeply involved in financial markets. As a result, clients' deposits now only account for a fraction of the money banks lend to their customers (Knorr Cetina and Preda, 2012: 2).

Rather than producing and trading commodities as the primary economy does, financial actors issue, develop, invest in and trade an increasing diversity of intangible financial products or assets, such as shares, bonds, interests or loans (Krippner, 2011). Unlike the primary economy with its broad range of activities and motivations, 'the core activities in financial markets … are investment and speculation' (Knorr Cetina, 2011: 121). The concept of investment is used in both economics and finance, albeit with slightly different meanings. In economics, investment denotes the purchase of material or immaterial goods, aimed at productivity growth and, hence, higher revenues. Financial actors invest in financial products with an expectation of future capital returns, such as dividends or interest (Wöhe, 1996; Busse von Colbe *et al.*, 2007; Springer Gabler, 2014).

Finance requires the support of intermediaries, namely analysts and rating agencies that convert uncertainty to risk, reduce complexity and thus provide investors with crucial operating knowledge. They use their own research to provide assessments of the overall creditworthiness of corporations, and of national states, prognoses of future performance, evaluation of compliance with legal and ethical standards, and general expectations of appropriate corporate behaviour (Windolf, 2005b: 44).

Environmental transformation of finance

Financial markets are not confined simply to the field of finance; they influence and transform their environments in important respects. First, financialization alters the cognitive framework of market participants. While financial markets rely on, and interact with, existing economic and noneconomic actors and structures, these are assigned new meanings, functions and relevance. For instance, Krippner (2012: 8) asserts that, under conditions of financialization, corporations are seen as flows of decomposable resources rather than stable entities. Moreover, financialization has led to an alternative understanding of the aims and outcomes of economic activity. Whereas an emphasis on growth was dominant in the big corporations of the 1960s, the focus has now shifted toward maximizing profit in terms of shareholder value (Windolf, 2005b: 24). At the same time, states have been portrayed as mere 'vendors of law' (Davis, 2009: 29), charged with supervizing markets, but abstaining from hard policy decisions on questions of distribution – a task that is now assigned to the markets (Krippner, 2011: 150). According to Davis, this process has also led to a new understanding of individuals and their roles in society. Formerly conceived as employees, citizens or voters, they have now become investors of human, social and political capital (Davis, 2009: 30). He characterizes this turn as the 'portfolio thinking' of private life. For instance, 'homeowners have been encouraged to see their homes as an investment asset rather than a durable tie to a community' (Davis, 2009: 30). Second, finance both draws on and triggers processes of globalization and standardization. For instance, credit used to be provided through a bank, in the context of an established and long-term relationship of mutual trust, as well as the bank's comprehensive, yet tacit and exclusive knowledge of the enterprise. Today, global investors have access to standardized information on corporations, enabling them to make investment decisions without any prior knowledge of the investee. For this reason, 'a Korean corporation evaluated as AAA is … as worthy of credit as a Canadian enterprise with the same ranking' (Windolf, 2005b: 46, author's translation). Finally, the rise of finance reconfigures power structures. Instead of peaceful coexistence for both new and old actors, it leads to an imbalance between corporations and financial investors. For instance, corporations need to adapt to the expectations of rating agencies and analysts to obtain the favourable ratings they need in order to attract money (Windolf, 2005b: 46).

While this list is far from complete, it provides an overview of the major characteristics of the financial sphere and, in particular, points to some well-established consequences of the growing importance and dominance of finance. The next section turns from finance to philanthropy, identifying similarities between the two realms with a view to providing evidence of the financialization of philanthropy.

Philanthropic action as social investment

Using the architecture of finance as an analytical lens to scrutinize recent developments in the philanthropic sector, a number of striking parallels may be observed. Since the advent of venture philanthropy in the US in the 1990s (Defourny *et al.*, Chapter 22), the field of philanthropy has undergone a remarkably broad and profound process of change. In several important respects, this is oriented towards a financial paradigm. The concept of financialization is helpful in analyzing these developments as it illustrates the inner logic of what, at first glance, look like fragmented developments. Since the new approach comes under the heading of 'social investment' – or variants thereof, such as 'impact investing' (Weber and Scheck, 2012), or 'social-impact investing' (Salamon, 2014) – a close conceptual link to *the* major activity in finance is established. Over recent decades, the term has been used to describe a wide range of phenomena, some related to, and some beyond, the field of philanthropy. The latter include ethical and socially responsible types of capital investments (Bruyn, 1991), as well as more productive ways to provide public welfare (Giddens, 1998; Midgley, 1999). In a philanthropic context, social investment has been proposed as: a generic concept for third-sector research (Then and Kehl, 2012); a new model to provide financial assets for social purposes (Nicholls, 2010; Schröer and Sigmund, 2012); and a new way to conceive of philanthropic action, as, for instance, in the context of venture philanthropy (Letts *et al.*, 1997).

The venture philanthropy approach has been particularly influential in introducing the social investment paradigm to the field of philanthropy. It is important for the present inquiry because, unlike the broader discourse on marketization, it has been explicitly oriented towards a financial paradigm, including its logic and methods, actors and practices. It aims to transform the practices of philanthropic foundations in imitation of the practices of venture capital firms. At its core lies the observation that traditional philanthropic approaches have proven inadequate to solve major social problems. To enhance the effectiveness of charitable giving, so the argument goes, philanthropists need to regard their practice as an investment of a particular – namely social – kind. Social investment, thus conceived, aims at establishing a long-term relationship with nonprofits in order to build the organizational capacity required for solving social problems on a large scale. Like their financial counterparts, venture philanthropists invest in a 'portfolio' of promising nonprofit organizations selected via processes of 'due diligence', based on explicit metrics of success. In this framework, all philanthropic action is oriented towards social impact as the ultimate 'social return of investment' (Letts *et al.*, 1997; Frumkin, 2003).

In his 2003 review, Frumkin arrived at a rather sceptical verdict, however, on the achievements and transformative potential of venture philanthropy. Overall, he maintained, the approach merely results in a relabeling of philanthropic activity, without any substantial change in actual practice. As a result, Frumkin observed that 'many of the "investments" made by venture philanthropist [sic] look just like the 'grants' made by other donors' (Frumkin, 2003: 15). An important part of the problem was the fact that the old practice of philanthropy seemed to lag behind the newly invented language. Hence, Frumkin suggested, 'important breakthroughs in practices are needed that create real distance between venture philanthropy and traditional giving' (2003: 15).

In retrospect, what appeared to be simply a semantic change can now be regarded as a powerful generative metaphor (Schön, 1979). The shift from charitable giving to social investment triggered a development which actually *has* created 'real' distance. It seems the logic of social investment cannot easily be transferred to a philanthropic sector that is based on the logic of charitable gift giving. Recent decades have, therefore, seen a comprehensive attempt at creating both the structures and the conceptual framework appropriate to the financial sphere in a number of important respects.

As a result, Salamon's (2014) account of recent developments in philanthropy can be read as an immediate transposition of major elements of the financial sphere into the field of philanthropy. He diagnoses the emergence of a 'social-purpose finance ecosystem' (Salamon, 2014: 6), including new financial actors and entities, tools and products, as well as the redefinition of existing actors and their operating routines. His account is based on an overarching new narrative of philanthropy organized around the notion of 'social-impact investment'. This is a kind of philanthropy that takes a long-term view seeking to create social enterprises which are both economically viable and socially effective due to their ability to generate social *and* financial returns (Salamon, 2014: 5–6).

These developments mark a new concept of philanthropy that follows the financial model, and the next section points out the parallels between them. The analysis shows that financialized philanthropy replicates the technical architecture of the financial sector so as to perform similar production tasks in similar ways. Although this transformation is still in its early stages, and incomplete in important respects, it may ultimately result in the creation of a structural isomorphism (DiMaggio and Powell, 1991) that straddles the spheres of finance and philanthropy.

Parallels of finance and philanthropy

Financial themes and financial language have become ubiquitous today, both in the scholarship and the practice of philanthropy. Inadequate budgets due to the stagnation, or even the decline, of traditional sources of funding on one hand, and the enormous amount of free capital circulating in global financial markets, on the other, have created renewed interest in philanthropic finance. For instance, global financial stock was estimated at $212 trillion in 2010 (McKinsey 2011: 2). This leads to a greater awareness of new and alternative opportunities to mobilize these assets for social purposes, as well as the financial tools and transactions required to do so (Freireich and Fulton, 2009; Nicholls, 2010; Achleitner *et al.*, 2011; Moore *et al.*, 2012; Weber and Scheck, 2012; Salamon, 2014).

In the philanthropic sector, access to resources has traditionally been based on a direct relationship between funders and recipients. For the new logic to work, the exchange of resources needs to be organized in more indirect and market-like ways. While these developments are still in their early stages, a number of actors are experimenting with the establishment of social-purpose exchanges. Although they resemble their financial counterparts in terms of basic operations, their social mission distinguishes them from conventional platforms because they aim to attract investors who are in sympathy with the social objectives of the enterprises concerned. Examples include the NExT SSE (Breidenbach, 2011), the Social Stock Exchange Ltd in the UK and many others around the world (Shahnaz *et al*., 2014).

New actors and activities in philanthropy

A number of new funders have emerged recently in the philanthropic field. These include venture philanthropists, as well as 'new donors' (Eikenberry and Kluver, 2004; Hess, 2005) – successful entrepreneurs who stress the 'investment' character of their giving. They are joined by nonprofit and for-profit investment funds, many of whom plan to maximize both the social and the financial return on their 'social impact investments' (Salamon, 2014: 18–20).

Microcredits are the most visible new financial tools of philanthropy. Particularly in developing countries, they are now provided by a genuine microfinance industry. Rapid growth has produced a credit volume of $US 89.4 billion assisting more than 200 million customers (Mader, 2014: 167). The rise of microfinance is highly relevant to the process of financialization, not only because these new tools are praised as being particularly effective in terms of poverty reduction, but also because they generate a particularly high return on investment (Mader, 2014). Recently, there has also been a surge of interest in social impact bonds. They are based on the idea that the state should encourage private investors to finance attempts to develop more effective solutions to social problems. Provided that public spending is actually reduced, the state pays dividends to the investors in return (Clifford and Jung, 2016).

Accordingly, rational nonprofit activity is no longer regarded as the mere giving away of gifts. In the new framework, philanthropic action ranges from traditional gift giving to profitable businesses championing a social cause. We are now seeing the emergence of an intermediary sector which eliminates the gap between nonprofit and for-profit action, creating a seamless continuum (Nicholls, 2010: 76). There are now two ways to measure returns in philanthropic practice. Social impact has become the universal 'currency' of these new practices however vague its meaning. As it is now widely acknowledged that the social economy may include profitable businesses, a financial return on investment has become a legitimate alternative measure of success (Nicholls, 2010; Salamon, 2014).

Similarly to finance, the new actors of financialized philanthropy are supported by specialist analysts and intermediary organizations. Nonprofit rating agencies, such as the American Charity Watch, the German Phineo or New Philanthropy Capital (NPC) in the UK, claim to provide donors with the objective, professional and in-depth knowledge of potential recipients that they need to make informed decisions on which organizations to support. Charity Watch adopts the big financial rating agencies' system by rating nonprofits from grades 'A+' to 'F,' (Lowell *et al*., 2005). These organizations are complemented by a number of specialist microfinance rating agencies (Gutiérrez-Nieto, 2007), some of which have been founded by managers who had previously worked in finance (e.g. NPC in the UK), while others represent the interplay between new and old actors. In Germany, the rating agency Phineo has been established as a joint venture by the Bertelsmann Foundation and Deutsche Börse (German Stock Exchange Group). Beyond that, there are 'capital aggregators' and 'enterprise brokers' (Hagerman and Wood, 2014) who raise money from investors and provide liquidity to enterprises that have some kind of social mission (Richter, 2014). Again, they serve as experts with an intimate knowledge of underserved firms and markets. However, the extent to which these firms actually pursue a genuinely social rather than a straightforward for-profit agenda may often be difficult to determine.

Environmental transformation of philanthropy

As the financialization of philanthropy is still in its early stages, its broader impact has not yet been determined. However, attempts to redefine existing actors, tools and modes of operation in terms that are increasingly compatible with a financial paradigm are clearly visible today. The transformation from *philanthropic giving* along the lines of the gift economy (e.g. Adloff, 2010) to an example of *social investment* is the greatest change in this context. Others refer to new ways to conceive of established philanthropic organizations, notably philanthropic foundations. While they still have a role to play in the new scenario, albeit with different functions and under new labels, the more innovative foundations are now termed 'philanthropic banks' (Salamon and Burckart, 2014) in order to determine their place – if only in the second row – in the new financialized philanthropic environment.

In sum, the philanthropic sector is undergoing a profound and all-embracing process of change, the consequences of which are as yet unclear. Through financialization, we are seeing the transformation of the sector along the lines of the financial sphere, including its structures, processes and rationales. Table 23.1 below illustrates the close match between the emerging ecosystem of philanthropic social investment and the financial sphere.

Financialization as a completion of marketization

If indeed philanthropy is financialized, the following questions arise: Why does it happen and to what purpose? Some scholars suggest an explanation based on supply and demand. For instance, Salamon argues that an excess of financial assets leads financial actors to search for new profitable investment opportunities, while an increase in global social crises and the parallel growth of social entrepreneurship result in a rising interest in investment in social enterprises which may or may not generate their own revenues (Salamon, 2014). Yet, while these factors certainly have a role to play, there is an alternative explanation. This builds on the original diagnosis of a marketization of the third sector.

If marketization itself is not just transferring business methods to the charitable sector, but represents an attempt to structure philanthropic activity according to economic paradigms, financialization makes perfect sense. If finance is indeed an essential component of modern

Table 23.1 Structural parallels between finance and social investment philanthropy

	Finance	*Social Investment Philanthropy*
Function	Providing credit to the primary economy	Providing credit to social entrepreneurs
Benefits	Enabling economic growth	Enabling the growth of a social economy
Markets	Exchange traded and over-the-counter markets	Social stock exchanges
Actors	For-profit investors (investment banks, stock brokers, pension funds, etc.)	Nonprofit, for-profit and quasi-public investors (social investment funds, 'philanthropic banks')
Motives	Financial returns	Social and financial returns
Core activities	Investment and speculation	Social investment
Products	Diverse financial tools and products such as credits, bonds and others	New tools of socio-finance, such as microcredits or social impact bonds
Intermediaries	Rating agencies Financial analysts	Non-profit rating agencies Social impact analysts

capitalism, the marketization of philanthropy can only work successfully if it is complemented by a proprietary system of philanthropic finance. While there is certainly no explicit masterplan, the very idea of social investment urges actors to create the kind of ecosystem that is required if the project of marketization is to work at all, and to work well.

Viewed in this light, the financialization of philanthropy is not an independent phenomenon. Depending on one's point of view, it can be described either as the completion or the radicalization of marketization. Compared to earlier attempts to add economic tools to the philanthropic toolkit, the new developments have an entirely new dimension, aiming, as they do, at a fundamental reconstruction and re-evaluation of philanthropy. First, philanthropic activity is no longer portrayed as a type of action *sui generis* which is enhanced by the use of economic methods. Rather, rational philanthropic action *is* an investment in the proper sense of the word, which considerably reduces the scope for alternative practices. Second, the social investment paradigm is based on a coherent outlook on society. Proponents of social investment do not demand entirely new kinds of philanthropic action. Rather, they see charitable effectiveness as a *function* of investment-like behaviour, the effects of which can be enhanced if this aspect is strengthened. Accordingly, the social investment approach entails a straightforward normative programme. Its essence is expressed by the idea that philanthropic organizations *should* increasingly behave like social investors and that the sector as a whole needs to be rearranged to facilitate this shift.

Given these considerations, we might ask if it would be better for the concept of financialization to be replaced by a modified version of marketization that draws more on the paradigm of financial capitalism in the sense outlined above. Despite strong arguments for this position, financialization has an important role to play. First, it enables us to understand how the different, seemingly unrelated building blocks of this transformation are interconnected through their respective roles in the financial sector. This process, if successful, might have far-reaching consequences which are beyond the scope of the current debate (but see Nicholls, 2010: 87–93; Salamon, 2014: 93–94). Second, financialization provides scholars with the theoretical instruments required to explain events and assess the further course of developments, as well as possible consequences. This issue of consequences is addressed in the next section.

The consequences of financialization

Scholars and practitioners alike mostly emphasize the enormous opportunities inherent in attempts at redirecting a substantial share of global capital into the philanthropic sector. The risks of financialization play a merely peripheral role in this discussion (Salamon, 2014: 93–97). In fact, there are a number of potentially desirable effects, for example, increasing awareness of how to mobilize existing resources for philanthropic purposes, such as ethical or mission-related investments. Furthermore, the development of new financial products such as microcredits or social impact bonds may result in the emergence of a wholly new set of instruments in the philanthropic toolkit that might be effective in addressing a range of social problems that cannot be tackled by more conventional means (Salamon, 2014).

Given the events of the financial crisis of 2008–09, and its major societal consequences, however, unlimited faith in the power of finance to solve some of the very problems it has caused in the first place seems unwarranted. While the majority of economists maintain that financial markets generate desirable effects such as economic growth (Knorr Cetina, 2011: 112), many scholars of financialization point to a broad range of unintended and problematic results (Windolf, 2005a; Epstein and Jayadev, 2006; Davis, 2009; Krippner, 2012; Heires and Nölke, 2014), which suggests particular caution when it comes to making philanthropy safe for financial investors.

The next section highlight some of the more problematic and unintended consequences. Acknowledging that the list may be incomplete, the assumption is that where financialization of philanthropy is continuously occurring, more of the following issues will arise.

Alternative modes and rationales of resource allocation

According to Krippner, financialization can be explained as a political response to 'the inability of an affluent society to face the political challenges imposed by the end of affluence' (Krippner, 2011: 149). She contends that policymakers turned to the markets in order to avoid making hard decisions on the question of distribution. As a result, she observes 'eroding collective capacities to engage questions of economic justice' (Krippner, 2011: 150). If this assessment is correct, the financialization of philanthropy may lead to similar results. For instance, the measures employed by nonprofit rating agencies such as the German Phineo result in decisions on the allocation of scarce resources being based on largely non-normative criteria (Phineo, 2012). As a consequence, nonprofit organizations that operate in incommensurable situations and aim at furthering basically incommensurable values are subject to an identical evaluation regime. In this framework, projects that aim to save human lives are evaluated by the same methods and obtain the same ratings as projects aimed at saving frogs.

Another consequence is the fact that social impact as the alleged *raison d'être* of the new philanthropy is notoriously hard to define and measure (Ebrahim and Rangan, 2010; Liket, 2014). In contrast, determining the *financial* return of (social) businesses is a much more straightforward task. Hence, investors and intermediaries will have strong incentives to focus on maximum returns on investment, while treating social value more as a desirable by-product than as the proper purpose of social enterprises (cf. Gutiérrez-Nieto and Serrano-Cinca, 2007).

Corporate misbehaviour

The financial crisis of 2008–09 highlighted the undesirable side effects of the excessive deregulation of finance that has been identified as the cause of severe economic and political crises; at the same time, major actors in the financial industry have repeatedly been found guilty of corporate misbehaviour and fraud (Stiglitz, 2010; Roubini and Mihm, 2011). Similar problematic consequences are to be expected if the philanthropic sector simply opens the gates to financial actors without determining the rules of appropriate corporate behaviour. At the very minimum, the language of impact investment will increasingly only be used for reasons of legitimacy, thus erecting philanthropic facades behind which the quest for maximum financial returns rather than social purposes will be pursued. In the worst case, the impacts of financialization on the philanthropic sector will closely resemble the situation in the real economy. Critical analysts such as Mader (2014), who explores the dark side of the microfinance industry, point to very similar potential consequences, such as corporate misbehaviour and cyclical systemic crises leading to over-indebtedness and misery of debtors, as well as the widespread inclination to provide public subsidies intended to guarantee private profits.

A shift in power from social enterprise to finance

Disregard for the power of financial actors is another blind spot of current debates on the transformation of philanthropy. Financialization is mostly treated as a matter of technology; the implications of opening the field to the wealthy and powerful actors of the global financial markets, creating new forms of resource dependency, are neglected. This may be due to rather technocratic conceptions of finance as a merely functional part of modern economy. For instance, while Salamon (2014: 93) acknowledges that 'there will be winners and losers' of financialization, the modern revenue-generating, service-providing generation of social entrepreneurs should be expected to be positioned on the winning side of the new regime of accumulation (as opposed to advocacy or civil rights organizations). However, scholars of financialization shed doubts on these assumptions as they maintain that, rather than being the servant of the real economy, finance has become its master in important respects. For instance, Deutschmann (2011: 382) argues that, 'from a sociological view, financialization can be characterized as a hegemonic regime of rentiers over entrepreneurs'. The same development is likely to occur in the field of philanthropy. Under conditions of financialization, profitable social enterprises will increasingly be taken over by large investors (Shahnaz *et al.*, 2014: 144) or will face increasing pressure to deliver profits regardless of their social mission.

The rise of alternatives

While attempts to mobilize the assets of the financial industry for philanthropic purposes are at the heart of current debates, there is also resistance to financialization and experimentation with alternatives. Van der Zwan (2014: 121) points to 'promising new initiatives that go against the grain of the financial regime, both inside the realm of finance (peer-to-peer lending platforms, community cooperative banking), as well as outside (new forms of community ownership and systems of sharing)'. In the field of philanthropy, a number of more grassroots-oriented organizational forms have emerged as possible alternatives to industrial finance, such as giving circles, which pool financial, social and cultural capital to find new answers to the old insufficiency challenge (Eikenberry, 2006). Moreover, the concept of financialization in the context of philanthropy may also sharpen focus when it comes to civil society initiatives that actively oppose these developments and advocate reining in the power of global finance rather than extending it (Fioramonti and Thümler, 2013).

Conclusion and outlook

The concept of financialization, if applied to the philanthropic sector, makes visible a broad transformation along the paradigm of the financial sphere. Its heuristic advantage lies in the potential to subsume different phenomena under one umbrella term and thus make visible the underlying template of seemingly unconnected developments. This chapter has argued that financialization should be discussed and understood in the wider context of a marketization of philanthropy along the lines of financial capitalism. This approach suggests new explanations for familiar phenomena and allows us to make predictions regarding the possible consequences.

It also creates a major puzzle, however, which cannot be solved in the context of this paper. The financial crisis of 2008–09 exposed the potentially dramatic consequences of deregulated financial markets that are now widely regarded as a major threat to the stability and welfare of contemporary societies. These events have triggered a highly critical public and political reaction towards the excesses of the financial industry, as well as comprehensive attempts to re-embed and re-regulate this sector (Fioramonti and Thümler, 2013).

Against this backdrop it comes as a surprise that civil society in general and philanthropy in particular have displayed an almost complete disregard vis-à-vis these developments, and there is little sign of initiatives to tackle their root causes (Fioramonti and Thümler, 2013; Scholte, 2013). An increasing number of scholars and practitioners aim to reshape the philanthropic sector according to the paradigm of those same financial markets, including calls for an active process of deregulation and intervention by the state to enable and accelerate these processes. Possible risks and unintended consequences are largely excluded from these considerations (Weber and Scheck, 2012; Salamon, 2014).

This raises the question of a possible connection between the two phenomena. Obviously, the project of tapping the assets of global finance is hardly compatible with attempts at opposing the power of the financial industry. Further investigations of the processes of financialization and marketization in the field of philanthropy should describe, trace and explain these developments and their interconnections more thoroughly. Finally, research should increasingly explore the political economy of financialization, taking a more systematic and realistic account of its actual and potential social and political consequences.

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