

Buffet's Charity: The Economic Foundations of Helping Others

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Warren Buffet has been widely praised for his announced intentions to give the Bill and Melinda Gates Foundation the bulk of his wealth, with the gift reputed to be on the order of \$31 billion. Pundits have been quick to stress how much good his fortune can now do ridding third-world countries of diseases. They have failed to stress how much good Buffet has already done for the world by accumulating his vast fortune, and they have totally overlooked the costs of his largesse borne by citizens of this country and the rest of the world who will not directly benefit from Gates Foundation grants.

Buffet accumulated his great wealth in an old-fashioned way. By sagaciously directing his financial assets to relatively more promising (and profitable) companies, he has contributed more value for other people in the form of goods and services and plant and equipment than he has consumed (or even *could* consume).

While his motives may have been self-aggrandizement, his efforts have resulted in hordes of other people being made better off. By not consuming as much as he produced, he has done more than amass a financial fortune. He has left real resources in the private sector of the world economy to be used to fuel economic growth and to enhance human wellbeing.

Lots of people – not just investors in Buffet's investment company Berkshire-Hathaway -- have had greater real incomes than they otherwise would have had had Buffet not been so careful and successful in his investment strategies and had he lived

more lavishly. Many of the beneficiaries of Buffet's efforts are the rich and famous, but perhaps more people are the poor of Appalachia, India, and Africa.

Now, Buffet will give up his claim to resources of the world to the Gates Foundation. Will the world be better off? Many seem to think the answer is clear, that Buffet's show of charitable intention can only be translated into improved results for his life's work. But as is so often the case, whether Buffet's charity is good for the world depends on how effectively the beneficiaries of Gates Foundation grants use their newfound claims to resources that Buffet once owned, and how effectively those resources would have been used had Buffet done nothing, that is, had left the resources to be employed by the non-charitable private sector of the world's economy.

As it is, grants made by the Gates Foundation will mean that resources will be diverted to charitable uses, which have direct and easily focused benefits on narrowly defined groups of people. But the Gates grants also mean that resources will be diverted from business uses, which could have had the effect of producing benefits through more goods and services with lower prices in diffused, hard-to-recognize ways for an untold count of people.

It is all too tempting to assess Buffet's charitable goals by identifying the visible antipoverty gains from Buffet's charity while forgetting about the largely invisible gains from his prior business efforts motivated by decidedly non-charitable ends. As Buffet recognizes, deploring his wealth for charity ends will be far more difficult than deploring them for non-charity ends for a long-understood reason: The achievement of non-charity ends is far easier to assess (given firms' profit statements) than the achievement of charity ends (which often can only be poorly measured).

Without much doubt Buffet believes he can now add to the value he has provided the world by giving his wealth away, but anyone as smart as Buffet must be concerned. He has surely noticed how so many third-world countries, especially in Africa, have remained mired in poverty because of pervasive corruption and civil strife. He has also no doubt noticed how the best of charitable intentions of the past from governments and charitable foundations have resulted in the waste of untold resources that could have remained productively employed in other countries, improving the wellbeing of many people who have not been singled out for help.

Buffet has wisely conditioned his magnanimous gift on Bill and Melinda Gates remaining in charge of the Gates Foundation and his having a seat on its board. Perhaps those three people's business acumen will translate into charitable acumen. Clearly, good intentions do not always improve the world, a point all too easily overlooked.

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