

# Philanthropy and Inequality: What's the Relationship?

By Kevin Laskowski

*“Should a private foundation be more than a private investment company that uses some of its excess cash flow for charitable purposes?”*

—F.B. Heron Foundation<sup>1</sup>

This is supposed to be a “golden age of philanthropy” in the United States.

In 1999, Boston College researchers John Havens and Paul Schervish estimated that, from 1998 to 2052, some \$6 trillion of a \$41-trillion intergenerational wealth transfer would make its way to charity.<sup>2</sup> In the decade following that prediction, the number of U.S. grantmaking foundations grew by more than half; total foundation assets increased by a third, and total grant dollars doubled.<sup>3</sup> The philanthropic growth is not limited to foundations. The number, total giving and contributions to donor-advised funds and other giving vehicles have increased dramatically, and new hybrid organizations – low-profit limited liability corporations (L3C) and benefit corporations, among them – are attracting attention.

This “second great wave of philanthropy,”<sup>4</sup> however, has occurred amid increasing economic and social inequality in the United States. The Occupy Wall Street (OWS) movement has succeeded in drawing attention to another wealth transfer, one perhaps more relevant to philanthropy's growth in recent years: the transfer of a growing share of national income and wealth to those at the top. Drawing inspiration from the Arab Spring, OWS asserts that the richest 1 percent “are writing the

rules of an unfair global economy that is foreclosing on our future.”<sup>5</sup>

The protestors have a case: After World War II, workforce compensation paralleled increasing productivity until the late 1970s when, in what has been called the “Great Divergence,” those at the top, especially the top 1 percent, began to capture a steadily increasing share of American income.<sup>6</sup> By 2007, the richest 10 percent of Americans controlled two-thirds of Americans' net worth.<sup>7</sup> In 2008, the wealthiest 10 percent earned almost the same amount of income as the rest of the country combined.<sup>8</sup>

Commenting on the OWS protests, Albert Ruesga, president and CEO of the Greater New Orleans Foundation, wondered what a growing philanthropic sector had to say for itself:

“Whereas taken together the collective actions of 90,000+ foundations in the United States have failed to eliminate the most basic injustices in our society. Whereas after decades of work foundations have failed to alter the most basic conditions of the poor in the United States...Be it therefore resolved that the 99% should ask: ‘What the \*\*\*\* y'all been doin’?’”<sup>9</sup>

What *has* the philanthropic sector been doing, and why has it had so little success in combating persistent inequality?

Part of the answer can be found by looking at the growth in philanthropy as part of a broader economic trend of financialization. While grantmakers can function in ways significantly different than investment firms, as the F. B. Heron Foundation and others have pointed out, foundations and similar giving vehicles are indeed investment vehicles that use excess cash flow for charity. Without a robust set of normative expectations about how that wealth is stewarded and eventually distributed, these vehicles default to the short-term financial interests they are designed and marketed to serve.

Foundations and other philanthropic vehicles are simply tools that can be put to any number of uses. If we care about our democracy, we have to ensure that reducing inequality is one of them.

## PHILANTHROPY AND INEQUALITY

Philanthropy's golden age did not emerge fully formed from the wallets of a new breed of strategic grantmakers. The forces that drove increasing inequality similarly powered philanthropy's rapid rise.

In some ways, this is to be expected: people often are generous. Rising inequality increases the likelihood of surplus wealth and the chance that some of the surplus wealth held by the richest among us will exchange hands as charity. Economist Edward Wolff found that inequality explained “changes in contributions relative to personal wealth, but the strongest effect is from the wealth share of the richest 1 percent.”<sup>10</sup>

At the same time, we should expect inequality to decrease somewhat as philanthropy increases. The increase in philanthropy should mean an increase in at least some exemplary foundations addressing inequality explicitly in their grantmaking, or at least becoming more effective at achieving broad-based impact. Grantmakers can prioritize the needs of the most vulnerable and support programs that might not otherwise be available to communities in need. Foundations can directly challenge systemic inequities and fund advocacy or community organizing. At the very least, philanthropy can serve to direct private wealth to public purposes; it can increase social capital and eases class tensions by putting disparate groups in touch with one another. We should expect the relationship between philanthropy and inequality to change and for inequality to decrease with philanthropic giving framed by these values.

It has not, so Ruesga’s question remains: what has philanthropy done?

### PHILANTHROPY AS FINANCIALIZATION

Philanthropy is far from insulated from the economic health of the private sector. It is a creature and extension of the market. Philanthropy is, in part if not wholly, a product of the recent rise in inequality and the financialization that powered it.

Financialization is the term given to the decline of manufacturing and the rise of banking and investments in re-

cent years. It “refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level.”<sup>11</sup> Since 1980, between 5.8 and 6.6 trillion dollars were transferred to the finance sector.<sup>12</sup> Not only does finance make up an increasing share of gross domestic product (GDP), but even nonfinancial firms have increased the portion of their businesses involving financial services. Furthermore, financialization has played an important role in the decline of labor and the rise in executive compensation, both implicated in the rise of inequality. According to sociologists Ken-Hou Lin and Donald Tomaskovic-Devey, financialization can explain “more than half of the decline in labor’s share of income, 10 percent of the growth in [executives’] share of compensation, and 15 percent of the growth in earnings dispersion between 1970 and 2008.”<sup>13</sup>

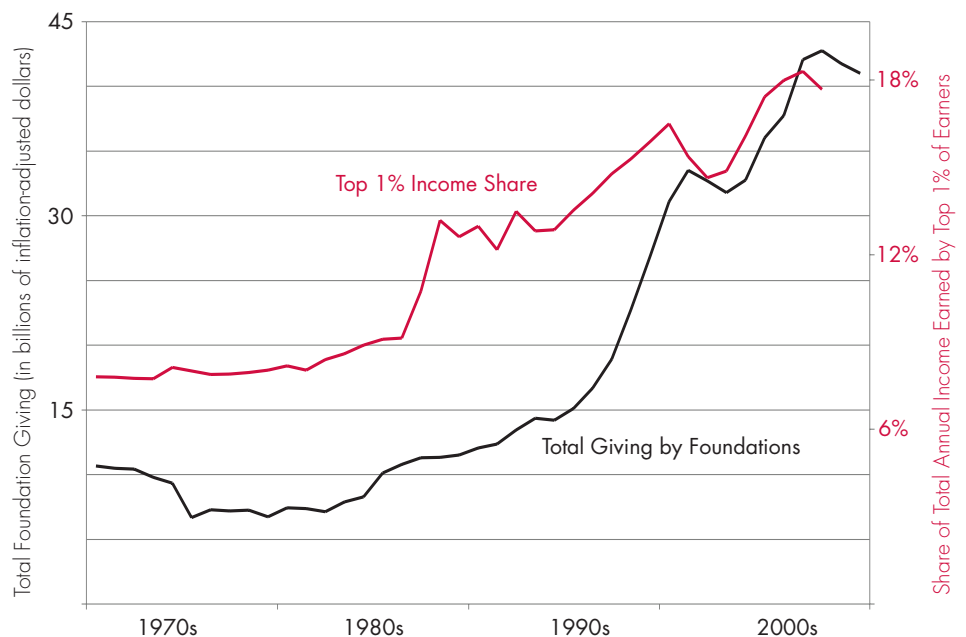
The resulting inequality, in turn, further drives financialization. The top-heavy rewards of a financialized

economy create a demand for more promising investments. The recent “innovations” in derivatives, collateralized debt obligations and credit default swaps implicated as fundamental causes of the current financial crisis and recession are thought to result from this trend.<sup>14</sup>

What does this have to do with philanthropy? The field has begun to show signs of the financialization affecting the rest of the economy.

There is increased emphasis on financial intermediaries. For nearly five decades, charitable giving as a share of GDP has remained around 2 percent.<sup>15</sup> Charitable giving has not increased from this vantage; it has instead shifted. In 1978, foundations received 4 percent of charitable dollars; by 2010, foundations were receiving 11 percent of charitable dollars.<sup>16</sup> In effect, the rise of philanthropy means that less is going “directly” to charity as a share of GDP, and more is moving to a larger and larger set of competing financial intermediaries. Additionally, more and more nonprofit organizations are offering to serve as these intermediaries.

### THE NEW GILDED AGE OF PHILANTHROPY



Many charities, including community foundations, churches, universities and hospitals, can sponsor donor-advised funds.<sup>17</sup>

These developments are not, in and of themselves, unwelcome: philanthropy *is* a form of financialization. Inequality drives financialization, and sometimes it takes the form of philanthropy. Foundations, charitable trusts, donor-advised funds and supporting organizations are all financial instruments marketed to the affluent as tax-advantageous vehicles for surplus wealth. The problems come when short-term financial interests are prioritized over the public interests for which these vehicles are created and for which they are granted substantial tax privileges.

If philanthropy as a field has had a difficult time combating inequality, it is partly because, much like firms in the rest of the economy, a significant and growing part of the sector is more responsive to financial rather than “product” considerations. The sector has become more responsive to the financial health of some of its endowments and some donors’ demands than it is to some communities’ needs. In finding that giving varies with inequality, Wolff also found – surprisingly and disappointingly – that giving varies more with wealth than with poverty,<sup>18</sup> a fact that would have been obvious to any nonprofit that solicits foundations after a dip in the market.

Without the additional expectation that philanthropy must do something to disrupt inequality, a financialized philanthropy (one that increasingly gives to intermediaries as opposed to charities directly) defaults to what financialization does elsewhere: reinforce inequality.

### CHAMPIONING EQUALITY

While we should encourage philanthropy to increase with rising inequality, we should, simultaneously, expect

inequality to decrease as philanthropy increases. Otherwise, a foundation or any other giving vehicle is little more than “a private investment company that uses some of its excess cash flow for charitable purposes.” The public expects more and we should expect more of ourselves as a field. Otherwise, as Ruesga says, what are we doing?

Those who steward and manage philanthropic vehicles should ensure that more of their giving directly benefits charities in ways that increase the public benefits of their work and



A protest outside Philadelphia City Hall dubbed Occupy Philadelphia. Photo by Jodi Jacobson.

work intentionally to disrupt inequality. Leaders can do this, for example, through robust payouts and mission-related investing, and by funding advocacy and organizing on behalf of and by underserved groups.

Ultimately, greater responsiveness on these issues is also in philanthropy’s best interest. Without significant progress in easing disparities, philanthropy will have a very hard time continuing to justify its tax-privileged place during a time of economic struggle. Philanthropy will be seen as emblematic of unjustified inequalities rather than the inspired and voluntary largesse it purports to be.

The “natural state” of philanthropy is not “underperformance.”<sup>19</sup> The default is financial performance. All philanthropic products succeed on some level as donor-service products. The question is whether the public gets a similar benefit, and whether the product succeeds as a community-benefit. From the perspective of inequality, philanthropy does not seem to be doing that. On the contrary, it seems that philanthropy serves to reinforce inequality as much as – if not more than – it serves to disrupt it.

Stanford professor Rob Reich wrote that philanthropy has always had an “uneasy relation to equality”:

Philanthropy is not always a friend to equality; it can be indifferent to equality and sometimes a cause of *inequality* ... when philanthropic activity actually worsens inequality, any justification for the state’s provision of special tax treatment to philanthropic organizations is considerably weakened and perhaps entirely eroded.<sup>20</sup>

Absent significant progress in combating inequality, the larger question of what exactly it is that philanthropy

does for society and the communities it purports to serve will remain. Inequality has risen to a level not seen since the Gilded Age, the name some gave to American philanthropy's first golden age. It would be a pity if the second golden age of philanthropy proved as gilded as the first. ■

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## Notes

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Without significant progress in easing disparities, philanthropy will have a very hard time continuing to justify its tax-privileged place during a time of economic struggle.

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