

Philanthropy's Commitment to the Common Good

By Alison Goldberg

Philanthropy today is responding to an economy characterized by extreme inequalities: 10 percent of households in the United States own 70 percent of the nation's wealth;¹ the median net worth for white households is ten times that of black households;² and children born in the poorest 20 percent of households have only a 1 percent chance of reaching the top percent of income earners.³

We urgently need to address the problem of wealth inequality in this country. More and more households face financial insecurity amidst an extreme concentration of wealth at the top. Such inequality is damaging our economy and our society.⁴ Private institutional philanthropy must take an active role in eliminating these disparities. Philanthropy⁵ is an important tool for redistributing societal resources and effecting change.

However, when we look at the numbers, we see that relatively few philanthropic dollars go to communities that experience economic hardship. In 2007, only a quarter of all foundation giving went to "economically disadvantaged communities."⁶ Only 33 percent of grant dollars benefited marginalized communities, broadly defined.⁷ Why aren't we, as a sector, giving more money to communities that face the greatest needs? One of the reasons lies in private philanthropy's complicated, sometimes conflicted, relationship with the common good.

THE COMMON GOOD

The "common good" embodies the idea that shared societal resources should be used to improve well-being



Alison Goldberg

for the greatest number of people possible. Promoting the common good is about acting on behalf of the interests of a wider community.

On the surface, it may seem that all philanthropy, by definition, is for the common good. Isn't the purpose of giving to help others? But private philanthropy isn't solely about generosity – it's a specific institution that was created a century ago and has its

own policies, practices, rules and cultural norms. And, as much as its resources have been channeled to worthwhile causes, private philanthropy also was set up to serve wealthy families' interests.

PHILANTHROPY FOR WEALTHY FAMILIES

Foundations were created as legal entities in the 1800s, but wealthy families didn't begin using these vehicles for their giving until the end of that century. Motivated by the mounting concentration of private wealth during the Industrial Revolution and the introduction of the federal income and estate taxes, a growing number of donors set up funds as mechanisms to shelter their assets.

By creating foundations, wealthy families received a number of benefits beyond tax relief. Donors were able to pay family members high salaries for nominal participation in their funds. They could use their foundations as investment partners by placing their funds' assets in companies in which they held a vested interest. The early foundations played a considerable public relations role for their donors. In an era when 10 percent of the population controlled 90 percent of the wealth,⁸ powerful businessmen used their foundations' giving to recast their role from profiteers to benefactors. Industrialists sponsored spectacular public works, but the social and economic conditions their charities addressed often were a direct result of their own business practices.⁹

The 'common good' embodies the idea that shared societal resources should be used to improve well-being for the greatest number of people possible.

By specifying “donor intent” in legally binding wills and trusts, donors ensured their giving priorities would be followed, well beyond the grave. The early philanthropists set up institutions that would exist in perpetuity, and until 1969 foundations weren’t even required to give any money away. At the outset, philanthropy was used as a tool to further the concentration of wealth, not eliminate it.

Why is this history relevant today? Despite some significant changes to the laws that regulate foundations—for example, the Tax Reform Act of 1969, which required foundations to spend a minimum percentage of their assets each year and regulated investment practices—private philanthropy currently is operating in a surprisingly similar way to the earliest funds.

It’s typical for foundations to be established in perpetuity when created in the context of estate planning and built on the desire for family legacy. Foundation assets frequently are invested in companies that have nothing to do with philanthropic mission, and may even be contradictory to those goals.¹⁰ Foundation boards often make giving decisions without input from the broader public, and in the case of family funds, pass that power on across generations.¹¹

We are continuing to use an institution that was set up to concentrate wealth and power, with the result that the resources and leverage of philanthropic institutions aren’t prioritizing the common good, and aren’t getting redistributed as broadly or effectively as they could.¹²

PHILANTHROPY FOR THE COMMON GOOD

So, how do we realign this institution so that it’s more capable of challenging inequality? One starting point is to embrace the idea that the resources foundations steward are in part public

We are continuing to use an institution that was set up to concentrate wealth and power, with the result that the resources and leverage of philanthropic institutions aren’t prioritizing the common good, and aren’t getting redistributed as broadly or effectively as they could.

in nature. Because a donor receives tax deductions in exchange for a contribution to a foundation or fund, that institution then is legally required to distribute money for charitable purposes. Understood in these terms, private philanthropy is bound to serve the common good.

As many have noted, the public actually makes a financial contribution to foundations in the form of tax relief.¹³ Effectively, one-third to one-half of charitable contributions are “matched” by taxpayers in the form of forgone revenue to the U.S. Treasury. In 2005, this “taxpayer match” was about \$50 billion. Especially at a time like now, when our country urgently needs revenue for education, health care, and other critical services, the only justification for providing a tax benefit to foundations and their funders is if that money can be used to further the common good. Private philanthropy must play some redistributive role and be accountable to a wider community of taxpayers. Otherwise, it explicitly is serving wealthy families’ interests at a cost to everyone else.

Moreover, the accumulation of pri-

vate wealth relies on public investments, whether in infrastructure, technology, science or ecological protection. Wealthy families and the funds they create benefit disproportionately from public resources, and have a corresponding responsibility to reinvest in the common good.

What would it look like if we built our funds’ operating practices based on a commitment to the greater good? The National Committee for Responsive Philanthropy paints a hopeful picture in *Criteria for Philanthropy at Its Best*. Our boards would become far more diverse. Grantmaking priorities would shift, and funding would expand to communities that experience inequality and discrimination. Philanthropic mission would be the starting point for any decisions about investment and payout. Each of our funds would examine where the money goes, how it gets there, who decides, and who benefits. Regardless of our funding priorities, we’d strive to make grants that challenge inequality.

As long as private philanthropy exists, it’s likely there will be a need to accommodate the interests of donors and their descendents and strike a balance between personal priorities and the common good. But right now, that balance is skewed in the wrong direction. All of us who are involved in private philanthropy can work to reshape this institution to more effectively address inequality, and *Criteria* offers an essential guide.

WEALTH FOR THE COMMON GOOD

Taking these steps in philanthropy is critical, but we shouldn’t stop there. Those who are involved in private philanthropy also should look at the larger framework of federal tax policy since it has an important influence on just about everything we do.

For one, tax policy has the ability to increase the dollars available in private

funds, since the higher the taxes for high-income and wealthy families, the more money that is given to philanthropic foundations. According to the Congressional Budget Office, the federal estate tax provides a tremendous incentive for charitable giving. Abolishing the tax or substantially reducing it would result in a decline in charitable giving of \$13–\$25 billion a year.¹⁴ More progressive tax rates increase the resources available to the nonprofit sector.

More critically, our government relies on revenue from income and other taxes to invest in vital programs like food stamps, unemployment benefits and job training. Philanthropy can't be a substitute for what the public sector can provide. In order to be redistributive—to truly challenge inequality—tax policy must raise the most resources from those with the most capacity to pay.

While it appears as though our tax system is progressive, in 2006, the 400

highest-earning taxpayers paid an effective rate of only 17 percent, a rate far below the 51 percent effective rate they paid in 1955. Under current policy, the federal estate tax is a flat rate that applies to only 0.05 percent of all estates. Because of a series of tax cuts for the wealthy during the past 30 years, the tax burden has shifted to wage earners.¹⁵

Many people view philanthropy as an alternative to taxes, but we need all of the tools available to address the kinds of challenges we're up against. Several efforts are underway to consider how tax policy can be more in alignment with the common good, including an emerging network of wealthy individuals who advocate paying their fair share by promoting progressive tax reform.¹⁶ NCRP and others have promoted foundations' support of advocacy as an important strategy for economic justice since nonprofit organizations have a vital role to play in helping shape legislative and budgetary priori-

ties. Another way to deepen philanthropy's commitment to the common good is for funders, including foundation donors, to be a part of efforts that realign our tax code.

We not only need to assess our internal practices in philanthropy, but determine how we can reshape policies affecting wealth for the common good. ■

WEALTH FOR THE COMMON GOOD

Alison Goldberg coordinates Wealth for the Common Good, an emerging network of business leaders and wealthy individuals supporting public policies that promote shared prosperity and fair taxation (www.wealthforcommon-good.org). She coauthored Creating Change Through Family Philanthropy: The Next Generation and serves on the board of the JRG Foundation.

Notes

1. Lawrence Mishel, Jared Bernstein and Sylvia Allegretto. *State of Working America 2006–2007*. An Economic Policy Institute Book. (Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press, 2007).
2. The median net worth for black households in 2004 was \$11,800 compared to \$118,300 for white households. See Edward N. Wolff. "Recent Trends in Household Wealth in the US." *Levy Economics Institute Working Paper Collection* (New York: Levy Economics Institute, 2007).
3. United for Fair Economy. *Foreclosed: State of the Dream Report 2009*.
4. Visit www.extremeinequality.org.
5. This article focuses on private foundations and funds, the majority of which are family-led.
6. Foundation Center. *Foundation Giving Trends*. February 2009.
7. Foundation Center data as cited in Niki Jagpal. *Criteria for Philanthropy at Its Best: Benchmarks to Assess and Enhance Grantmakers' Impact* (Washington, D.C.: National Committee for Responsive Philanthropy, 2009).
8. Estimates from 1912 as cited in William H. Gates Sr. and Chuck Collins. *Wealth and Our Commonwealth: Why America Should Tax Accumulated Fortunes* (Boston: Beacon Press, 2002), 15.
9. For examples, see *Ibid*, 37; Richard Magat. *Unlikely Partners: Philanthropic Foundations and the Labor Movement* (Ithaca, N.Y.: Cornell University Press, 1999), 33; Howard Zinn. *A People's History of the United States: 1492–Present* (New York: Harper Collins, [1980] 2005), 276–277 and 354–357.
10. See Jed Emerson. "Where Money Meets Mission: Breaking Down the Firewall Between Foundation Investments and Programming." *Stanford Social Innovation Review* (Summer 2003): 38–47.
11. Only 14 percent of funders who participated in a survey by Grantmakers for Effective Organizations delegated grantmaking decisions to grantees or representatives of recipient communities. Grantmakers for Effective Organizations. *Grantmaking Practices that Support Grantee Success: Survey Report, Grantmakings for Effective Organizations*, 2008, cited in Jagpal, 2009.
12. For a more in-depth discussion on this topic, see Alison Goldberg, Karen Pittelman, and Resource Generation. *Creating Change Through Family Philanthropy: The Next Generation* (New York: Soft Skull Press, 2006).
13. Kelin Gersick. *Generations of Giving* (Washington, D.C.: National Center for Family Philanthropy, 2004), 88.
14. Aviva Aron-Dine, *Estate Tax Repeal – or Slashing The Estate Tax Rate – Would Substantially Reduce Charitable Giving*. Center on Budget and Policy Priorities, June 7, 2006. <http://www.cbpp.org/cms/index.cfm?fa=view&id=465>.
15. John Cavanagh et al., *Reversing the Great Tax Shift: Seven Steps to Finance our Economic Recovery Fairly* (Washington, D.C.: Institute for Policy Studies, 2009).