

# More About Scary, But Urgent, Choices for Philanthropy

10.31.22 | Linda J. Rosenthal, JD



In *Philanthropy Thought Leaders: “Seven Scary Things”* (July 12, 2022), we mentioned some worrisome issues on the horizon for the nonprofit sector. That post would have been more appropriate on Halloween, but the topic was too important to delay.

So, in the middle of the summer, we went ahead and discussed a particularly insightful article by Philip Rojc, a senior editor at *Inside Philanthropy: Seven Things That Scare Us About the Future of Philanthropy* (June 9, 2022). He wrote: “...[i]t’s pretty safe to say we’re living in ‘an era of intense philanthropic churn.’”

For a long time, foundation-led grantmaking has been the way that philanthropy has shaped “how the nation’s organizations address the issues of the day.” But that traditional paradigm is too “passive and benign” to capture “... the true influence of the mega-funders” of today.” We’re in a “New Gilded Age” that is likely to be “... just as formative for ... charitable giving as the last.”

What challenges does Philip Rojc see?

He presents for our consideration a “non-exhaustive list” of “seven scary possible futures for philanthropy” in this “brave new world of billionaire disruptors, bulging donor-advised funds, politicized funding, and forceful structural critiques.” His selections include:

- Billionaires doing too much
- Billionaires doing too little
- Black box (secrecy; lack of transparency)
- Rampant politicization
- Talk instead of action
- Reforms beaten back

- Reform politicized.

“What does the future of philanthropy look like in the United States?” Will we “like where that road might lead?”

Now, a few months later, there’s already much more news and commentary to add to this critical, sector-wide conversation.

If ever there’s a good day to mull over spooky scenarios, surely it’s on or around Halloween. So let’s pick it up again while zombies and ghosts are already roaming your neighborhood and scaring you out of your wits.

### ***Boo! About Those Scary Futures***

There are several additional seven-item lists to ponder. See, for example:

- [\*Seven Problems That Have Defied Philanthropy\*](#) (August 23, 2022), Philip Rojc, [insidephilanthropy.com](#).

Mr. Rojc, himself, has added more fearsome food for thought: Despite the best of intentions and huge amounts of money, time, and expertise, philanthropy doesn’t have a particularly successful track record with certain intractable problems.

This time, his seven-item (non-exhaustive) list includes: (1) the opioid epidemic; (2) obesity; (3) K-12 education; (4) housing and homelessness; (5) gun violence; (6) nuclear weapons and arms control; and (7) racial inequality – education and residential stratification.

“No one likes to talk for too long about their failures, and when you’re relying on the largesse of others, highlighting their failures can be risky,” he explains. “Those are a couple of the reasons why there’s still too little discourse about how philanthropy is dropping the ball on some paramount challenges facing American society today.”

He includes a particularly cheery commentary on item 6 (nuclear weapons and arms control): “[If our luck holds](#) and the world continues to sidestep nuclear catastrophe, the civic sector’s decades-long disinvestment in arms control and nonproliferation won’t mean so much. But if history plays out differently, whoever’s left will be asking: Why didn’t they do more?”

Of course, he notes that, in each category, there have been some rare examples of limited success. See, for instance, his own commentary in [\*Why Philanthropy Has Made Little Progress on Gun Violence — and a Few Reasons for Hope\*](#) (May 26, 2022), [insidephilanthropy.com](#).

- [\*Big Changes and 7 Big Questions for Big Philanthropy\*](#) (October 18, 2022) Phil Buchanan, [Center for Effective Philanthropy Blog](#)

“It’s remarkable,” writes the CEO of the Center for Effective Philanthropy, “to reflect on how much has changed since 2019, when big philanthropy was wrapped up in [self-critique](#) prompted by a range of high-profile critics.”

But the crisis of the pandemic, in addition to the exigencies of responding to long-ignored racial-inequality and injustice, changed “foundations and nonprofits – not all, but many – [which] stepped

up in a time of need, demonstrating their value in a crisis and calling into question some of the more extreme and unhelpful hand-wringing about whether philanthropy could even be a force for good.”

“Rather than focusing on the meta-level critiques, leaders zeroed in on the specifics of what their institutions could and should do better in a moment of great need. Hundreds of grantmakers signed onto a pledge, hosted by the Council on Foundations, to shift practices to be more helpful to nonprofits. There was an overwhelming sense, prevalent at long last, that donors shouldn’t hamstring nonprofits.”

Mr. Buchanan offers his own list of seven worries about philanthropy’s future. First, he wonders whether progress made in the past two years or so can or will be sustained, asking: “1. Will the changes in how foundations and donors support nonprofits be sustained — and implemented thoughtfully?”

There are additional uncertainties: “2. Will racial equity be prioritized, or will an orchestrated backlash and complacency push it back down the priority list?” and “3. Will philanthropy step up on climate change?”

What about navigating through the turbulence of our politics: “4. How will philanthropy balance the need to counter polarization with the need to call out extremism?” and “5. How can philanthropy best act to protect our democracy?”

Concluding his list are: “6. Are we headed into a recession? What will be the effect of a more tumultuous market for investors, as well as continued high inflation?”; and “7. “... [W]ill household rates of giving to nonprofits continue to taper off? How will that affect perceptions of legitimacy of the nonprofit sector and philanthropy — and will that translate to legislative changes?”

### ***Wealth and Power Concentrations***

Moving beyond lists of seven this or that, nonprofit experts have contributed thoughts in the past few months on the dangers inherent in (a) the documented trend away from smaller, individual, donations; (b) the consolidation of philanthropy power in the hands of a limited circle of the wealthy; and (c) the surging popularity of donor-advised funds that don’t require current distributions of that wealth.

See, for example:

- *The shift from charity to philanthropy* (August 13, 2022) Felix Salmon, *axios.com* [

“Pretty much the entire U.S. nonprofit sector is witnessing a move from individually-determined charitable donations to institutionally-determined philanthropic strategies.”

- *Gilded Giving 2022: How Wealth Inequality Distorts Philanthropy and Imperils Democracy* (July 2022) Chuck Collins & Helen Flannery, *ips.dc.org*.

This new report from the Institute for Policy Studies includes solid data confirming the two-decade-long drop in percentage of American households giving to charity. “Although “[c]harities like to say that ‘every penny counts,’ the truth now is that “...small-dollar donations have never mattered less. Increasingly, it’s a small number of ultra-high net worth individuals, alongside even fewer old money

foundations, who determine whether charities thrive or wither away.”

The researchers conclude: “As inequality has grown in the United States, our nation’s charitable system is in danger of becoming a taxpayer-subsidized platform of private power for the ultra-wealthy. This poses risks to the independent nonprofit sector and our society as a whole.” The new data shows “... the extent of the capture of our charitable sector by the wealthy, the risks this poses, and how it has been exacerbated by the pandemic and other external factors.

They “... propose strong reforms that would reverse these trends and realign our charitable system to serve the public interest.” But so far efforts in Congress to legislate needed changes have been unsuccessful.

The authors’ research verifies that “wealthy donors tend to pour their dollars into “... charitable intermediary vehicles they control — rather than into public operating charities (i.e. active nonprofits on the ground).” More particularly, of the \$25 billion that was “donated by megadonors in 2021, about 80%” of that amount “went into private foundations and donor-advised funds where the donors retain full control of how (and even whether) the money is spent.”

- *Donor Advised Funds: An Overview* (2022) California Department of Justice

This explosion in popularity of donor-advised funds has become a major worry of leaders of the nonprofit sector. California recently conducted an “audit of Donor Advised Fund sponsors registered with the Office of the Attorney General of California.” A lingering problem in the consideration of the effect of the proliferation of the DAFs has been the lack of complete and definitive data.

In the Executive Summary, there are detailed facts and figures, shown in a succession of charts. “There are several notable takeaways confirming: the rapid growth of DAFs; the relatively low payout rates; and the prevalence of DAF-to-DAF transfers.

See also *Wealthy Use Loophole to Reap Tax Breaks — And Delay Giving Away Money* (October 2, 2022), Noah Buhayar, et al., *Bloomberg*; and *Time to reform donor-advised funds* (October 12, 2022) Craig Kennedy, *philanthropydaily.com*

- *Understanding Power And Philanthropy—It’s Complicated* (August 4, 2022) Dr. Charles Owubah, Forbes Nonprofit Council, *Forbes*

“[I]ssues of power increasingly take center stage in discussions about our sector.”

While “... nonprofits comprise about 6% of the U.S. workforce and nearly 6% of the country’s GDP,” they “face real constraints in ... efforts to effect change.” Donors have “... an outsized voice in shaping what work gets done, where and how—even when donors don’t deeply understand the people or places they seek to help.” Part of the solution lies in leaders of nonprofits being able to successfully “influence donor priorities and encourage more participatory grant-making and trust-based philanthropy.”

During the pandemic, there was a loosening of the rigid power dynamics to some extent, but it’s unclear whether any such changes will be made permanent.

### ***Transparency and Trust Issues***

Although during the pandemic, the nonprofit sector earned well-deserved kudos and appreciation, there are troubling signs that the general public have less trust in philanthropy than in years past.

See, for example:

- [Leaders Must Confront Declining Trust in the Nonprofit World — Before It's Too Late](#)  
(August 2, 2022) Greg Berman, *philanthropy.com*, Greg Berman

"A recent [Independent Sector survey](#) found that only 56 percent of Americans express trust in nonprofits — down 3 points from 2020. Compared with increasingly distrusted government institutions such as the [Supreme Court](#) and [Congress](#), this isn't terrible. But for a field primarily focused on improving society and helping the disadvantaged, it isn't great."

And it's particularly troublesome because, during the pandemic, the nation's nonprofits were publicly and visibly in the fray. Organizations ranging from food banks to housing agencies to health organizations and others went above and beyond any reasonable duty to help fellow citizens in a catastrophic emergency. But this short-term "halo is fading."

Some of the problems are self-inflicted. An alarming number of news stories about nonprofit scandals and mismanagement are making a further negative dent in the public's perception and opinion of the U.S. charitable sector.

- [If Foundations Want to Encourage Transparency, They Should Look in the Mirror](#)  
(September 28, 2022), Clara Miller, *philanthropy.com*,

The author notes that while "...(f)oundations say they like transparency," they don't practice what they preach.

While they "... champion transparency on the part of grantees, insisting on measures for effectiveness, program performance, financial management, and evidence that grant dollars are used efficiently," their own information-dissemination is thin.

"Most foundations provide no useful information about their investment portfolios, and the largest are the murkiest....They strictly control data and narratives about their own performance in areas such as investment, staff, strategy, and allocation of funds .... They generally do little more than the bare minimum required by the IRS and state charity regulators, which means making their latest tax returns, and sometimes their audited financial statements, available."

At present, the decision on transparency is voluntary. Unless there is federal administrative or legislative action to "demand more of this type of information from foundations" – (and neither is likely) – nothing may change unless "... more large and prominent grant makers sign on in a very public and ... transparent way," creating the "peer pressure" that could lead others to follow.

"The reasons for full transparency are clear: Openness improves performance. Without such openness, foundations are unable to credibly assess their own value and are stuck in an unproductive narrative loop about their worthiness and effectiveness."

### ***Politicization and Dark Money***

The problem of politics seeping in philanthropy or vice-versa is increasing.

- [Churches Are Breaking the Law by Endorsing in Elections, Experts Say. The IRS Looks the Other Way.](#) (October 30, 2022) Jeremy Schwartz & Jessica Priest, *propublica.org* and *The Texas Tribune*.

“For nearly 70 years, federal law has barred churches from directly involving themselves in political campaigns, but the IRS has largely abdicated its enforcement responsibilities as churches have become more brazen about publicly backing candidates.”

This article includes a detailed history of the Johnson Amendment. It also presents the solid proof of what most of us already knew: The politics ban is ignored.

- [Reforming §501\(c\)\(4\) organizations](#) (September 26, 2022), Craig Kennedy, *philanthropydaily.com*

“Two recent major gifts to § 501(c)(4) social-welfare organizations, one by [Barre Seid](#) and the other by [Yvon Chouinard](#), have generated serious discussion about entities of this sort and how they are funded. Much of the commentary about these donations was ideological, with some hailing both men as heroes and others equating them to the denizens of hell.”

What emerges, though, is the conclusion “that the funding and regulatory structure of (c)(4) groups is broken and needs to be fixed....”

See also, for instance: [Dark Money Groups Operate With Impunity While The Government Does Nothing](#) (May 6, 2022) Roger Wieand, *campaignlegal.org*; and [Whitehouse Leads Charge to End Harmful Dark-Money Riders](#) (May 12, 2022) Senator Sheldon Whitehouse, *Press Release*

### ***Conclusion***

We’re at a crossroads, many philanthropy thought leaders emphasize. Society’s challenges are existential and urgent.

Since “change is not only desirable, but inevitable, [making the right choices](#) about which changes we pursue and which changes we fight” will be critical.

Perhaps during your orgy of day-after gobbling up the leftover candy corn and bite-size Snickers bars, chew on some of these important but not necessarily easy-to-swallow commentaries.

– Linda J. Rosenthal, J.D., FPLG Information & Research Director