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GENERAL

Top-Heavy Philanthropy Creates Risks for Democracy

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An important report released in November 2018 by the Washington-D.C.-based **Institute for Policy Studies** raises the alarm about a troubling trend in philanthropy and charitable giving in the United States.

Traditionally, American charities have been broadly supported by "**low-dollar and mid-level donors**." In recent years, though – and particularly as the nation emerged from the 2008 economic crisis – there has been a marked change. Now, the "charitable sector in the United States is **increasingly top-heavy**"; more and more "philanthropic power" is wielded by a "handful of very wealthy individuals and foundations."

The report, "***Gilded Giving 2018****: Top-Heavy Philanthropy and Its Risks to the Independent Sector*" is an update to a 2016 report which had "**pointed out this trend.**" More current data "shows that the trend is **not only continuing, but accelerating**."

Problematic Philanthropy Trend

While "there's **nothing wrong with wealthy people giving bigger gifts**," there are significant near- and long-term risks to the overall integrity of the nonprofit independent sector if this anti-democratic shift continues without some needed reform and safeguards.

"The problem is the rules regulating our charitable sector have become skewed toward **prioritizing tax write-offs** for the ultra-wealthy and not toward solving social problems." And a "tiny group of mega-philanthropists – techies – … have set up funds with huge amounts directed to their favorite causes." Making the problem worse is that more and more money is "directed into wealth-warehousing vehicles such as private foundations and donor-advised funds and away from direct nonprofits serving immediate needs."

The ***Gilded Giving 2018*** report authors pose this question: "What are the risks to the autonomy of the independent sector – not to mention our democracy – when a growing amount of philanthropic power is held in fewer hands?

They identify "implications" of this trend away from broad-based popular support of charities for: (1) charity fundraising; (2) the role of the independent sector; and (3) the health of American democracy.

One of the significant risks to U.S. charitable organizations is the issue of "volatility and unpredictability in funding" as reliable sources of revenue shift. This change makes budgeting and income forecasting more difficult. A related problem is that nonprofits must undertake the cultivation of mega-donors and compete for those significant dollars. A third issue of concern is that the organizations may need to dilute their own mission and vision to bend to the funding biases of the new crop of uber-wealthy donors.

There is risk as well for the public including – most notably – an "increasingly unaccountable and undemocratic public sector" as well as "use of philanthropy" as an "extension of power and privilege." In addition, there are significant problems and objections to the "warehousing of wealth" particularly in "the face of urgent needs." When mega-donors choose avenues of charitable giving – donor-advised funds, for instance – that do not include sufficient requirements to pay out the money in the short-term, these wealthy individuals are gaining valuable immediate tax benefits but charitable organizations are not given the immediate cash they need to alleviate poverty, further medical research, advance the arts, or pursue whatever charitable mission they have been created to accomplish.

Proposed Philanthropy Reforms

The ***Gilded Giving 2018*** authors conclude that "urgent reform of the philanthropic sector" is needed to combat the problems identified in the report.

In connection with the use of private foundations, they recommend that: (1) the annual payout requirement be raised; (2) foundation overhead be excluded from any calculation of "payout percentage"; and (3) the foundation excise taxes be linked to the payout distribution amount.

As to donor-advised funds, the authors suggest a three-year payout requirement as well as a ban of gifts from private foundations to DAFs and vice versa.

More generally, they endorse a policy change from the current rules to a universal charitable deduction. This may stimulate giving by the growing percentage of taxpayers that no longer itemize deductions. In addition, to curb some of the exploitation of the tax code by uber-wealthy individuals, the authors recommend a lifetime cap on charitable deductions.

The authors caution, though, that these reforms must be accompanied as well by any and all possible efforts to combat wealth inequality in our society.

Conclusion

A key downside to the trend toward mega donations is that "the rules regulating our charitable sector have become skewed toward **prioritizing tax write-offs** for the ultra-wealthy and not toward solving social problems." While that's a good deal for the top 1%, it's a bad deal for the Treasury, the taxpayers, and charitable organizations and beneficiaries.