Good sibling, bad sibling: philanthropy and inequality

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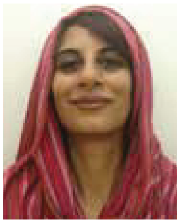
Increased concentration of wealth and increasing inequality are the conditions likely to give rise to philanthropy. This was true with Carnegie and Rockefeller in the US and it seems to be true in the BRICS countries now. In other words, these are the very conditions likely to give rise to foundations. What can foundations do to address them?



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In the past generation, the economy of the world has undergone a profound shift. The centre of gravity has moved east and south to the BRICS countries and to the so-called Next Eleven or N-11 (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea and Vietnam, countries identified by Goldman Sachs as having a high potential in the 21st century), while the western economies of Europe and the US are losing ground. China is predicted to take over as the leading world economy in 2027.

Meanwhile, inequality within countries – as distinct from between countries – is rising nearly everywhere according to the UN's Human Development Index. It is rising fastest in the growth success stories such as China and India, but inequality in OECD countries is also at its highest level for the past half century. The average income of the richest 10 per cent of the population is about nine times that of the poorest 10 per cent across the OECD, up from seven times 25 years ago.[1] The growth at the very top of the income distribution has been very dramatic, with the top 0.1 per cent drawing away from the rest.

Alongside the rise in inequality, we are seeing an explosion of new philanthropy in emerging economies. A 2011 survey by Charities Aid Foundation found 300 active foundations in Russia. According to the China Foundation Center, there are now 3,000 foundations in China. India is estimated to have over 300 grantmaking and operational foundations, 62 per cent of which were registered after 1991. Data on philanthropy from other emerging economies is harder to quantify, but available evidence suggests that philanthropy is on the rise wherever there is new wealth.[2]

Global trends suggest, therefore, that philanthropy and inequality are sister and brother with capitalism as their father. Alongside pronounced disparities in wealth and income, concentrated capital is fuelling new corporate and family philanthropies in emerging economies. An article in the last issue of *Alliance*[3] suggests many motives at work in the process – peer or official pressure, social expectations, desire for improved public image (and possibly increased sales), desire to make restitution for wrongs human and environmental – as well as a genuine wish to promote the wellbeing of those among whom they operate.

So, if philanthropy and inequality are part of the same family, can the good sibling influence the bad one? Filiz Bikmen, guest editor for the March 2013 issue of *Alliance*, thinks not. 'Many of the articles in this issue,' she says, 'suggest that donors, especially those with close ties to their business interests, tend to shy away from funding programmes which address the root causes and systemic failures that perpetuate social and economic inequality and choose "safer" areas to fund instead.'

The Foundation Center in the US also reports much lower levels of social justice philanthropy than giving to more 'popular' themes. Philanthropy in the West has traditionally avoided tough issues. Albert Ruesga, from the Greater New Orleans Foundation, suggests we find it difficult to ask questions such as 'what does an equitable society look like?' because 'we will not run the risk of offending one another; we will not derail the gravy train or in any way threaten our comfortable sinecures.'[4]

The scale of inequality means that, even if it wanted to, a foundation could not muster sufficient resources to solve the problem directly. However, as Stephen Pittam, who until last year was secretary to the Joseph Rowntree Charitable Trust, points out: 'Foundations may not be able to solve the problem, but they can open up the topic for discussion, sponsor new thinking, and be responsive to a new framework when it emerges.'

So, what might such a framework look like? Drawing on what a variety of different foundations are already doing across the world, we suggest that there are five main strands that could give foundations a significant role in addressing inequality. Some of these address the roots of the problem; others deal with the consequences.

Highlight the problem

Some foundations have already supported research on the problem of inequality. The Joseph Rowntree

Charitable Trust, for example, funded *The Spirit Level*, a book that showed that inequality is bad for everyone, not just the poor. Inequality has adverse effects on all members of society across a wide range of measures in health, drugs, education, imprisonment, obesity, social mobility, trust, cohesion, violence, teenage pregnancies and child wellbeing. Remarkably, the book was a bestseller.

Partly due to the debate generated by the book, most people now think that something must be done about inequality. Such a view is not restricted to the left. In an interview in January 2013, Christine Lagarde, managing director of the IMF, warned that inequality is hindering the world's economic recovery, and is 'a recipe for instability, for frustration, for disorder'. 'Income inequality is something that needs to be resisted,' she said.

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Develop new economic models

Looking at the landscape of philanthropy since 15 September 2008 when Lehman Brothers' collapse signalled the beginning of the longest and deepest period of economic difficulty since the 1930s, it is surprising that there has been so little questioning of the fundamental organization of the world's economy.

George Soros is one of the few to rise to the challenge, donating $50 million to set up the Institute for New Economic Thinking (INET) in New York. Operating from the premise that 'economics has failed', the Institute has assembled a stellar team of Nobel Prize winning economists and others to rethink it from first principles. While it is early days, results so far seem to suggest that the Institute is focusing on making the existing system work rather than seeking alternatives. But the approach will need to go way beyond the traditional boundaries of economics if it is to address the interlinked problems of rising inequality, financial collapse, climate change and depletion of the traditional sources of energy, the combination of which is likely to bring the world to its knees.

Philanthropy, with its freedom to explore different options, is well placed to think more broadly and look towards the edges of our society, away from the mainstream. The job is to find people who have ideas that may seem preposterous now, yet have the potential to be applied in ways that we can't imagine. After all, early proponents of renewable energy were regarded as eccentric, but today renewable energy is contributing more than 20 per cent of energy supply in at least 30 countries, while some 120 countries have policy targets for longer-term shares of renewable energy, including a binding 20 per cent by 2020 target for the European Union.

The idea that philanthropy could help to develop new economic approaches has a pedigree. The Ford and Rockefeller Foundations supported the development of the 'Green Revolution', starting in the 1940s, whose technologies enabled agriculture to move from a subsistence-based to a commercially based economy and in the process helped to avert the threat of mass starvation across the world.

Pioneer community-based solutions

Turning now to the consequences of inequality, some foundations have developed strategies to deal with the fallout. Let us take an example of one that is all too common: communal violence. It is increasingly understood that inequality leads to social as well as economic division; the UN warns that any country with a Gini coefficient of 0.4 or more (on a scale of 0 to 1) runs the risk of lapsing into violent disorder.

The Foundations for Peace network contains 13 foundations that have developed ways of addressing communal violence. The Serbia Women's Reconstruction Fund mobilizes women against the 'militarist economy'. The Neelan Tiruchelvam Trust supports peace and reconciliation between Tamil and Sinhalese populations in Sri Lanka. The Abraham Fund works for shared citizenship between Israelis and Arabs in Israel. The Dalit Foundation supports grassroots initiatives that address ancient beliefs and practices that not only exclude Dalits but also allow violence against them to be treated with impunity.

These foundations are pioneering new models of 'activist foundations'. Formed from the communities they serve, they work closely with their grantees, harnessing local knowledge and relationships and standing alongside them in their long-term search for peace. They form part of a wider class of 'new public philanthropies' that have emerged from the bottom up in our societies in the past few years to develop assets to deal with inequality. What distinguishes them from old private philanthropies is above all that they fund their activities by raising money from the public rather than relying on an endowment resulting from the accumulation of private wealth. People from the communities that benefit from the philanthropy are part of the group of people who are donors. A recent report by the Global Fund for Community Foundations, *A Different Kind of Wealth*, features African examples.

Develop relations with government

Foundations' resources are inadequate for them to deal single-handed with the problem of inequality. Indeed, the evidence suggests that where inequality is coming down, as in Brazil and Ecuador, it is government and not philanthropy that is making the difference. In Ecuador, for example, much of the country's wealth is now being used for the benefit of the population rather than international oil companies, and the Gini coefficient is coming down as a result.

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But philanthropy has the potential to use the power of its relationships to influence governments and official development agencies to take issues of equity seriously. TrustAfrica is an example of where this is already happening through its Shared Prosperity programme. Africa is home to 13 per cent of the world's population but has less than 2 per cent of world trade and less than 1 per cent of global investment. TrustAfrica is using a variety of methods to help cultivate a more sustainable and equitable investment climate in Africa while supporting civil society, among other things, to advocate for more equitable development policies.

A partnership approach is suitable for foundations that wish to make a major impact on inequality because it leverages the resources of big money. Targets jointly agreed between foundations and governments might, for example, include reducing the 51 per cent of world trade that takes place through tax havens. This kind of bold approach does, however, run counter to current trends in philanthropy that focus on narrow, short-term goals, and funding projects with specific and measurable results.

Show leadership

The final way for foundations to tackle inequality is to provide leadership. This is important because there is no quick fix for complex systemic problems like inequality, and long-term action is called for.

To take an example from a different but related sphere, the C S Mott Foundation has pioneered community philanthropy across the world. The fact that community foundations are taking off in so many places is, in part, the result of many decades of patient work. Such long-term commitment allows grantees to think beyond the normal three-year cycle and enables the field to develop organically, while learning from mistakes, and developing skills, knowledge and capacities. It is only now that 30-year-old investments are paying off.

One foundation that did take a long-term view and attempt to address the relationship between philanthropy and inequality was the Ford Foundation. Ford made strategic investments in philanthropy over a 20-year period from 1992 to 2011, in 2006 amounting to as much as 10 per cent of its grantmaking budget. Not all of this expenditure was directed at inequality, but a particularly effective social justice strategy was to devolve resources to new, independent foundations. The results can be seen in the current work of foundations such as the Dalit Foundation, the Brazil Human Rights Fund, the African Women's Development Fund and the Arab Human Rights Fund. Although Ford has moved away from this area of work in recent years, its legacy lives on. The Working Group on Philanthropy for Social Justice and Peace is developing tools and networks to further deepen and broaden this field of philanthropy.

At the same time, it has to be acknowledged that this is an uphill struggle for the reasons stated in this article: issues of inequality do not figure high on foundations' priorities. Very few of the old private foundations make any attempt to address the inequality on which their very existence is based.

We argue that they should. The collapse of Lehman Brothers in 2008 was merely the first sign that 'business as usual' is no longer good enough. Financial systems have staggered on, but the crash should have alerted the philanthropic community to the underlying trends in the world. The combination of rising inequality, climate change and the depletion of energy stocks is taking us to a place where we all lose. It is time for the family to sort this out. @

1 OECD (2011), 'Divided we Stand: Why inequality keeps rising'. www.oecd.org/els/soc/dividedwestandwhyinequalitykeepsrising.htm

2 See, for example, 'Facts about philanthropy in emerging economies: China, Indonesia, Brazil, Mexico, Turkey and Russia', *Alliance*, 1 March 2013.

3 'Corporate philanthropy in emerging economies,' *Alliance*, 1 March 2013.

4 Albert Ruesga (2013) 'Gotta Be Cruel to Be Kind (In Philanthropy)', White Courtesy Telephone. See http://postcards.typepad.com