INEQUALITY AND THE PROMISE OF PHILANTHROPY

In an earlier President’s Message, Fred Ali wrote that his work was *driven by the fact that our world is not very equitable. The chasm between the rich and poor is ever widening, which makes our work in philanthropy all the more important.*

Since that message was published on this website, a number of people have asked us whether we think philanthropy can have any real impact on issues of inequality in our society. The following is an excerpt from a speech Fred made where he attempted to answer this question. As always, we appreciate your feedback.

As the title of my presentation suggests, I am very concerned with the rising levels of inequality in our society. It’s actually something that has occupied a great amount of my thinking over the last few years.

In January I returned from a three-month sabbatical. At the urging of my staff, I put a letter on our website, that talked about what I learned, and what the Foundation learned during my leave. In part, I wrote:

*...the time off gave me an opportunity to step back and reflect on what I want to do with the rest of my life. I was guided by the thought that we should live life with purpose and without regret. For me, that means taking advantage of the time we get, professionally as well as personally, to make this world a better place for all.*
I am driven by the fact that our world is not very equitable. The chasm between the rich and poor is ever widening, which makes our work in philanthropy all the more important. I have always believed that smart investments in people and organizations grappling with our society's biggest problems can make a difference.

I think most people in America simplistically view philanthropy as a way to level the playing field. They see philanthropy reducing inequality in our society, by transferring the resources of the rich to the poor or to the less fortunate. It’s maybe a popular notion, but we know it’s much more complicated than that. Given donor intent, many philanthropic endeavors have nothing to do with providing for the poor or disadvantaged. This is not a value judgment on my part – it’s just a statement of fact, and I am sure all of us in this room celebrate the diversity and independence of philanthropy. But at a time of scarce resources and great needs, people have begun to question this.

Rob Reich, a political scientist at Stanford, has suggested that philanthropy is “much more tightly connected to (the idea of) liberty than equality.” He argues that the majority of philanthropic dollars go to interests that widen, rather than reduce inequality in our society, and therefore, the generous tax incentives for philanthropy should be questioned. People like Reich believe that philanthropy is essentially subsidized by the government, and therefore, should be more tightly regulated. This might include giving government a greater role in
directing the use of charitable dollars. In other words, more money for soup kitchens, less money for the opera.

Some of you may have seen the May 19 article in the *Chronicle of Philanthropy* regarding the tremendous growth in donor advised funds. As the article points out, however, some people criticize these funds, because unlike private foundations, they do not have mandatory distribution requirements. While gifts to donor advised funds grew by 46% in 2012, giving from these funds only increased by 7%.ii Again, in a high need, limited resources environment, this issue will likely receive increased scrutiny.

Now, lest you get the wrong idea, I am a firm believer in donor intent and maintaining the independence of the charitable sector. I certainly don’t want any more government regulation. But here’s the point. In a time of growing economic inequality, and reduced public resources, Americans could, and likely will, expect more from the charitable sector in responding to increased needs.

Inequality has been steadily increasing in America, and today it stands at record levels. Let me provide you with a few quick data points and examples that speak to this social and economic inequality:

- The gap between the top 1% and the 99% is huge, not only in terms of income, but also wealth;
• Since 1979, the top 1% has doubled their share of the nation’s collective income, from about 10% to 20%. And between 2009 (officially the date when the recession ended) and 2011, the 1% saw their average income rise by 11%, as the 99% saw their incomes decline;\textsuperscript{iii}

As Isabel Sawhill, an economist with the Brookings Institute has noted: “The view that America is the land of opportunity doesn’t entirely square with the facts.”\textsuperscript{iv}

Other examples! Between 1948 and 1973, worker productivity in the U.S. grew by 96.8%, and hourly compensation rose an equivalent amount – by 93.7%.\textsuperscript{v} This correlation, I think we will all agree, is what you would like to see. But that’s not the case anymore! From 1973 to 2011, productivity went up 80.1%, but worker wages only 4.2%.\textsuperscript{vi}

Clearly, the old social contract in America, where corporate success was linked to worker security and the sharing of profits, has faded, and we now live in a time where maximizing shareholder profit dominates. That’s why we talk about a jobless recovery.

But again, it doesn’t have to work this way.

Some of you know the name Sol Price, one of our Foundation’s founding board members, who began Price Club that led to Costco. Costco – one of the most successful companies in America, has always kept wages
steady, health care funded, and avoided large-scale layoffs. People like Sol Price, and the former Costco CEO, Jim Sinegal, never lost faith in the concept that - the destinies of labor and management should be linked.

Wealth and income disparity lead to other consequences.

- Survey after survey concludes that the US leads all other industrialized nations when it comes to the number of children living in impoverished conditions;

- UNICEF reports the shameful statistic that 1 American child in 4 is poor, despite the fact that the US is responsible for approximately 30% of the world’s GDP;

- According to the Economic Policy Institute, the overall poverty rate in the US is above 17%, again the highest among developed nations.

In his important book, "The Price of Inequality" Nobel Laureate in economics, Joseph Stiglitz, writes that today, "The United States has less equality of opportunity than almost any other advanced industrial country." While social mobility is not impossible, "in America it’s becoming a statistical oddity." "The life prospects of an American are more dependent on the income and education of his parents than in almost any other advanced country."vii
Stiglitz also notes that inequality is not only an issue that should concern us on the very basic human fairness level – but it’s also an issue, that is holding back this nation’s economic recovery. For example, a weak and disappearing middle class is no longer strong enough to support needed consumer spending; and equally important, the middle class doesn’t have the resources to invest in itself and its future, through education, job training, and small business investment.

Hedrick Smith, the Pulitzer Prize winning journalist, has raised similar concerns in his recent book, “Who Stole the American Dream.” Smith writes that like ancient Greece and Rome, the most dangerous challenge for America today comes from within – “from the rifts and schisms we have allowed to develop within our economy and body politic.”

So what does this mean for philanthropy, and if anything, what can philanthropy do about it?

First, I believe that as levels of inequality continue to worsen in America – in standards of living, in education, and in equality of opportunity - the voices of our critics will continue to rise and multiply. Philanthropy won’t simply be able to hide behind arcane arguments dealing with donor intent. Some accountability and response is required. With billions of dollars sitting in tax-advantaged charitable structures, I
believe we can expect, and maybe should expect, increased demands for accountability.

I recently came across a “mock resolution” from Albert Ruesga, the President of the Greater New Orleans Foundation, intended as commentary on the Occupy Wall Street movement:

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 ... have y'all been doin?”

This is a funny, rhetorical device, but troubling nonetheless. While I recognize that philanthropy is limited in its potential impact on major issues, we have not done well enough when it comes to serving our neediest citizens. Since the financial crisis and resulting recession, philanthropy has been justifiably criticized for its tepid response, refusal to change tactics and unclear guidelines.

The developing crisis of inequality in America is holding back our continued growth and development as a nation, and threatening our civil society. Philanthropy needs to respond, not only by allocating our
limited resources where they are needed most, but also by working smarter, improving the process and practice of our grantmaking.

Second, despite limited resources, I think philanthropy can have impact in combating persistent inequality. In the last few years, and notwithstanding my earlier criticism, I have seen the impact of some outstanding, transformative, foundation-led initiatives.

The Conrad N. Hilton Foundation and the United Way of Greater Los Angeles’ role in expanding and demonstrating the efficacy of using permanent supportive housing to successfully combat chronic homelessness in Los Angeles County is a good example. The Home For Good initiative led to the development of a collaborative funding approach, which is leveraging a significant amount of public and private funding to increase and better coordinate funding for supportive housing projects.

We also have the example of the Edna McConnell Clark Foundation, who launched the True North Fund in 2011. This multi-million dollar fund aggregates private growth capital (including some funding from the Weingart Foundation) with federal Social Innovation funds to expand and strengthen programs for low-income youth. In Los Angeles, this has led to the strengthening of one of our premier child welfare organizations, the Children’s Institute.
Third, foundations can also have impact by the ways in which they design and implement their grantmaking programs. As a responsive grantmaker, I can tell you that it’s not just about funding large initiatives.

Philanthropy can help build capacity and grow impact by providing funding that can sustain, strengthen, and expand programs that are already effectively addressing issues of inequality in our communities. We don’t always have to fund something that is new, or invent new “theories of change” that we foist upon our grantees. There are plenty of agencies already doing exemplary, impactful work in some of our poorest communities in America.

At the Weingart Foundation, we believe the best way to support these organizations is by:

- Responsively funding effective programs whose strategies have been thoughtfully developed by the people who know the needs of their communities’ best – the leaders of community based health, education and human service organizations.

At the Weingart Foundation, we also think the best way to grow the impact of these organizations is:
• By making unrestricted operating support grants that give nonprofit leaders and innovators the flexible dollars they need to invest in their highest priority programs and infrastructure needs.

As some of you know, this has become the predominant form of the Weingart Foundation’s grantmaking program. In response to the economic crisis and recession that followed, the Weingart Foundation significantly expanded Core Support grants, and since, 2009, we have made over $60 million in grants in this area.

• By making multi-year funding commitments that provide nonprofit organizations the security they need to invest in the growth and development of their most impactful programs.

• And by supporting carefully developed capacity-building projects that allow nonprofit organizations to change in the ways they need to succeed.

In 2010, the Weingart Foundation sponsored an important study that looked at the health and capacity needs of nonprofit organizations in LA County. This study identified a number of areas where nonprofits needed to improve if they were to achieve the impact needed to meet their mission. Important areas of need included adaptive capacity, fund development, and leadership development. Providing support for the basic infrastructure and capacity needs of nonprofit organizations is another important way philanthropy can grow the impact of
organizations providing critically important services to our communities most vulnerable and needy citizens.

Fourth, private philanthropy can no longer afford to work in isolation from government. This is especially true in the area of human services, where despite deep budget cuts and sequester, public funding still dominates. We know, for example, that the government already farms out many of its funding mandates to nonprofit organizations. We need to make sure these collaborative relationships operate as effectively possible, and initiatives like the one I mentioned through the Edna McConnell Clark Foundation and the federal Social Innovation Fund represent a promising approach to improving outcomes and impact.

Additionally, some private funders are using an even more direct approach to spur government innovation. In Los Angeles, three foundations came together to help launch and fund the Mayor's Office of Strategic Partnerships, which brings the city and philanthropy together around issues of common concern.

In March, Bloomberg Philanthropies announced the winners of the Mayor's Challenge, that directly awarded funding to five cities to generate innovative ideas that solve major problems.

Issues related to social inequity, like healthcare for the indigent and housing for the homeless, generally involve some form of public
involvement and funding. Private philanthropy is finding creative ways to work with government, enhancing impact and effectiveness.

Fifth, many funders have learned that in order to address complex issues like persistent inequality, support for advocacy and community organizing – empowering people to affect public policy - is necessary.

Marshall Ganz, the well-known community organizer and lecturer at Harvard, talks about the “story of now – the fierce urgency of now.” As I have attempted to explain, the story of our now is the growing price of economic and social inequality in our society. The attention this issue is now thankfully getting, suggests that we have come to realize that the world we live in - is not as it ought to be.

Foundations can provide funding to support community organizing efforts that empower people at the community level to change conditions that contribute to persistent inequality. This was the strategy used by the Weingart Foundation when it seeded the development of a community organizing effort in South Los Angeles to maintain housing and community services for the working-poor in neighborhoods impacted by gentrification.

As Ganz notes, sometimes “we need to appreciate the challenge and conflict between the values by which we wish the world lived, and the values by which it actually does.”
“Organizers motivate community action by deepening people’s understanding of who they are, what they want, and why they want it,” and then help them develop strategies for accomplishing their objectives.

Finally, and maybe most importantly, I am convinced that philanthropy can have more impact if we allow ourselves to think differently about how we do our work. This will require choosing different pathways and forging new and creative solutions to our most vexing problems.

The Nonprofit Finance Fund, for example, has suggested that we should “begin by asking what challenges we seek to address, rather than what tool, such as a grant, we want to use.” Thinking like this leads some funders to supplement their grantmaking with other strategies like mission investments, program related investments, or investment guarantees.

We have also learned that money is important but it’s not the only tool available. Philanthropy can use its voice, its prestige, and its ability to convene, to call attention to issues of inequality in our society. Philanthropy can use its knowledge of what works, and what doesn’t, pointing the way to promising practices.

So, in summary, this is what I think philanthropy can do to meaningfully address issues of inequality in our country:
• We can respond to the crisis in a deliberate, clear, and transparent manner;
• We can design and implement our grantmaking programs and processes in ways that grow the impact of effective programs already operating;
• We can support foundation-led initiatives that are effectively combating issues of persistent inequality;
• We can recognize the importance of leveraging our limited funding with government, and look for creative ways to assist government in working smarter;
• We can support advocacy and community organizing – empowering people to address issues of inequality in their local communities, building movements for social change;
• And finally, we can allow ourselves to think more creatively about our work, accepting greater risk and the possibility of failure. We can also use our voice, our connections, and our convening power to call attention to issues of inequality in our society.

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In conclusion, let me step back and ask a question:

What’s our personal responsibility for making this world, our communities, our schools, our neighborhoods a better, more equitable place for all?
This is something I spent a lot of time thinking about during my recent sabbatical. Questions like this lead to additional questions about meaning and purpose in life. I think it’s important for those of us who have chosen this profession in philanthropy to think about why we got into this field in the first place, and what do we really want to accomplish – in our job, and during the remainder of our life?

If my time away taught me anything, it’s that we don’t take enough time in our busy lives to ask some of these more important questions.

My father, a first generation immigrant from Southern Italy, never let his children forget how fortunate we were. I subscribe to the idea, and assume most of you do as well, that for those of us who have been given much, much is expected in return.

If we can agree that the cost and, quite frankly, the shame of inequality cannot go unchallenged in our society any longer, then I would ask that we all join together and do something about it – personally as well as professionally - everyday, for the rest of our lives.

Thank you.
Endnotes


