PRIVATE FOUNDATIONS: KEEPING THEMSELVES RICH WHILE GIVING MONEY AWAY

by

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Private Foundations: Keeping Themselves Rich by Giving Money Away

The practice of philanthropy through private foundations has been an element of US capitalism for almost 150 years. It was in his manifesto *The Gospel of Wealth* (1889) that captain of industry Andrew Carnegie first proposed the importance of giving surplus earnings to his "poorer brethren," (p. 15) rather than passing everything down to heirs. Many followed his lead and the industry has grown and evolved a great deal since. As the rich continue to get richer, the philanthropic sector continues to grow and further its reach and influence around the globe.

In spite of the economic ups and downs of the last 20 years, American philanthropy is thriving. Currently, there are over 100,000 private foundations in the United States and together they hold over $1 trillion in assets (Stewart & Kulish, 2020). These foundations range from small family operations with median holdings of $500,000 to large-scale, multibillion-dollar operations (McGlaughon, 2014). In 2019 American foundations gave $75.69 billion, accounting for 17% of giving nationwide (National Philanthropic Trust, n.d.). This figure demonstrates double the foundation funds given in 2004 and an increase of $500 million over the previous year (Pruitt, 2020). Since 2015, giving by foundations has seen greater growth when compared to individual, corporate, and total giving (Pruitt, 2020).

Despite this abundance of generosity, the rich continue to get richer, and the wealth gap continues to widen in the United States. Why is the practice of philanthropy not doing more to level the playing field? Are philanthropists acting as agents of change in the lives of those less fortunate? Or are their practices, even as they give billions of dollars away, simply maintaining the status quo of inequality? Is the practice of giving maintaining the social order that allows them to have billions to give away in the first place?

This paper will examine the relational dynamics that maintain the imbalance between private foundations and their grantees. The framework of conflict theory has been chosen to analyze this relationship. Conflict theory grew out of Karl Marx's analysis of the relationship between the owners of production (the bourgeoisie) and the workers of production (the proletariat) (Crash Course, 2017). A parallel can be drawn between the bourgeoisie, who were the elite of their day, and the privileged philanthropists who choose to disperse funds through private foundations. Additionally, nonprofits receiving funds are similar to the proletariat as they are doing the work to bring the philanthropists visions to life. Using conflict theory as a guide, the dynamics of power at play between the two entities will be examined.

This analysis will begin with an introduction of conflict theory, followed by a history of philanthropy in the United States with a particular focus on the sector's reaction to the 2008 financial crisis and the COVID-19 pandemic. Both of these international events led to an evolution of how many private foundations interact with grantees. Finally, a closer examination of American philanthropy's response to the COVID-19 crisis will be compared to the segment's historical actions. In facing the international health and fiscal crisis, many in the philanthropic sector have reassessed their policies and practices, casting aside the status quo and making radical reforms.

Conflict Theory

In order to answer consider the question of whether foundations are a force for change or a protector of society's inequalities, we need to rely on a conceptual or theoretical framework. While many possibilities exist from which to choose, conflict theory is well suited for this task. Conflict theory proposes that society is comprised of different groups striving to control the same set of scarce resources (Robbins, Chatterjee, & Canda, 2012). Karl Marx, who used conflict theory to describe the ever-changing dynamics of a commerce-based culture, proposed that in a capitalist society (like that of the United States), there is a small group of elites who control the distribution of the resources for all (Libre Texts, 2020).

From this viewpoint, there is a clear separation of resources between the elite and the rest of society. One image that is frequently used is that of society being set up as a pyramid with the country's wealthiest at the top controlling the resources, and therefore the circumstances, of the large group 'below' them (New World Encyclopedia, n.d.). As power becomes concentrated, conflict arises as the few at the apex work to maintain their control (Crossman, 2019).

In the United States, when it comes to personal wealth, the point at the top of the pyramid has drastically sharpened in recent years. In 1983, upper-income families had 3.4 times the wealth of middle-income homes and 28 times the wealth of lower-income families (Horowitz, Igielnik, & Kochhar, 2020). By 2016, those ratios increased to 7.4 and 75 times, respectively (Horowitz et al., 2020). Wealth is just one example of a societal resource, however. Through their elevated position in society, the elite control resources beyond the financial such as, property, influence, knowledge and opportunity, and set the standards by which all must live their lives.

Some in the upper echelons do feel genuinely compelled to 'give back' and choose to set up private foundations for what is widely perceived as a means for balancing the system through charitable giving and grant making. However, at the heart of every action, there is a personally motivating incentive (Wakefield, 1993). Is the incentive the personal satisfaction engendered by helping others? Or is there possibly more at play? Conflict theory can help unpack some of the benefits reaped by those who participate in the philanthropic sector and clarify who has what to gain. As conflict theory explains the relationship between two parties, those receiving philanthropic funding must also be considered – what do they have to gain, and lose, in this arrangement?

Conflict theory has been expanded and applied to many scenarios beyond Marx's initial explanation of the relationship between the bourgeoisies and proletariat (Crash Course, 2017). This analysis will explore the response of private foundations to the 2008 financial crisis and COVID-19 pandemic while considering the following two factors of conflict theory. These factors were outlined by Chappelow (2020) in his summary of Marx's theory. First, is the existence of *competition for scarce resources*. In philanthropy, the chief resource being transferred is money, but there are other resources to consider such as access, knowledge and power. How these resources are accumulated and distributed is determined by a small group of elite individuals as a result of the second element, *structural inequality*. This component considers the societal structures that allow the elite to maintain control over resources, even as they are giving them away. The application of these concepts will provide a framework for the analysis of private foundations' influence over social progress in the United States.

A History of Philanthropy

As we consider whether foundations are agents of change or a protector of the status quo, we need to understand their role in US society and their legal structure. Private foundations are what Reich refers to as "institutional oddities" (Reich, 2018, p.144). Although subsidized by the Federal government through tax breaks, foundations have very little regulation and oversight. There is no requirement to meet consumer demand or compete with other entities for consumers. Their leaders are not elected officials and can spend their organization's resources almost completely how they please, as long as they are giving the minimum 5% of holdings to 501(c)3 operations. This puts private foundations in a unique position to operate as part of a democratic society with very little accountability or transparency (Reich, 2018). This unique position has evolved since the creation of the first chartered foundation, set up by John D. Rockefeller in 1910 (Reich, 2018). The following traces the sector from this first organization through to the turn of the 21st century.

Origins

Private foundations, as we know them today, began with Andrew Carnegie's manifesto *The Gospel of Wealth* in 1889. Disgusted with what he felt were lazy and detrimental approaches to distributing excess earnings, he implored his fellow millionaires to begin distributing their funds while alive, rather than wait until death (Carnegie, 1889). He felt that there was no generosity in leaving funds upon death, and that those who chose that route "simply [left] what [they] cannot take with [them]" (Carnegie, 1889, p. 25). He declared the importance of the wealthy to provide "his poorer brethren" with the service of his "superior wisdom, experience, and ability to administer, doing for them better than they would or could do for themselves" (Carnegie, 1889, p. 15). He further warned against indiscriminate charity, concerned that you may accidentally help the unworthy. He suggested millionaires only give to causes that have "clearly proved to . . . be deserving" though he gives no indication of how that might be determined (Carnegie, 1889, p. 22).

Other barons of the time would soon follow suit. John D. Rockefeller, the richest man in the world during his time, earned more money than he could ever spend and, inspired by Carnegie, was also committed to sharing his wealth for the betterment of others (Fleishman, 2007). As a result, he fielded thousands of appeals for donations per day (Reich, 2018). Unable to keep up with the requests, he decided to formalize his giving and create The Rockefeller Foundation, one of the first of its kind (Fleishman, 2007). The federal government was initially wary of the unchecked power a private foundation could yield over society and refused to grant Rockefeller a charter for his charitable organization when he requested their endorsement in 1910 (Reich, 2018). As a result, Rockefeller turned to the state of New York to be incorporated. The state offered Rockefeller a charter with very little, if any oversight, setting a precedent for the establishment of future foundations (White, 2017). It should be noted, however, that at the time there was no tax benefit to establishing foundations as federal income tax was not established until 1917 (Thorndike, 2013).

Private foundations allowed Rockefeller and his fellow millionaires to organize their giving and treat their charity work as a business (Giridharadas, 2018). The organizations' scale allowed them to operate at a "wholesale" rather than just a "retail" level (Reich, 2018, p. 141). The idea caught on. In 1915 there were 27 foundations, in 1930 there were more than 200 and by 1959 there more than 2000 (Reich, 2018; Zunz, 2012). This professional approach to charitable activity also led to the creation of a new field of professional consultants and fundraisers, further expanding the reach of those with funds to give (Zunz, 2012).

Tax Exemption and Government Oversight

During the First World War the government was stretched thin and appreciation for the large-scale contributions of philanthropies grew. To encourage wealthy citizens to continue to contribute to the social welfare of the country, the federal government built a tax exemption for charitable donations into the War Revenue Act of 1917 (Reich, 2018; Zunz, 2012). Proponents of the exemption expressed that if wealthy individuals were already doing their part by paying higher taxes, and in some cases sending their children off to war, why further harm them by making charitable contributions an act above and beyond these sacrifices (Thorndike, 2013). There was concern amongst the population that charitable operations would not survive if the wealthiest Americans were forced to redirect their surplus income to taxes, rather than philanthropy. It was pointed out, however, that should the deduction be eliminated the government would increase their tax earnings, increasing public funds. This view prompted some to express unease that those additional funds would lead to the federal government becoming too powerful a force over the social welfare of its citizens (Thorndike, 2013). Despite this debate, the deduction was included as part of the 1917 law.

Over the next several decades, foundations were left with very little government oversight and were not obligated to provide much in the way of public information (White, 2017). Few foundations volunteered insight into their operations and because a cohesive sector had yet to form, there was little in the way of statistics or analysis (Katz & Soskis, 2018). Even the commission that was convened by John D. Rockefeller III in 1968 to advocate for foundations on Capitol Hill found that there were few facts available (Brilliant, 2000). The commission was hoping to review public and private sources to learn about the activities and contributions of foundations that might bring their good works to light. Instead they were left to simply analyze 990 forms, which at the time provided significantly less information than they do today (Brilliant, 2000). This lack of transparency and accountability drew suspicion from all sides of the political spectrum (Simon, 1995). While citizens and lawmakers alike were united in their wary view of private foundations, reasons for this concern varied widely. Conservatives grew concerned that foundations were pushing a potentially seditious agenda and leftists expressed fears that foundation leaders were trying to take control of the economy with their tax-free activities (Simon, 1995). There was also some concern from both sides about political activities such as the funding of a congressional candidate or voter registration efforts in The South (Simon, 1995). Congress responded with The Tax Reform Act of 1969 (TRA69) which created measures designed to root out corruption and slightly reduce the tax benefits enjoyed by foundations and their founders (White, 2017). Stipulations included a modest income tax on foundation earnings, a minimum distribution (5%) and enhanced reporting requirements (White, 2017). Measures were also put in place to prohibit self-dealing and political activity (White, 2017). More imposing measures were proposed but ultimately discarded such as a limit of 40 years for a foundation's existence and a ban on all voter registration activities (Simon, 1995). Foundation creation did slow in the years that followed, indicating that the increased regulation may have made the establishment of charitable organizations less enticing (Katz and Soskis, 2018; Simon, 1995).

Following the tax reforms of 1969, the sector began to make moves to identify itself as more nationally cohesive (Katz & Soskis, 2018). It was John D. Rockefeller III that proposed the term "third sector" and he worked hard to organize philanthropic organizations across the country (Zunz, 2012). He put together a commission that lobbied the government, with the help of his brother, the Vice-President, that lowered both the excise tax and mandatory payout that had been put in place by the 1969 tax law (Zunz, 2012). Unfortunately, beyond these fiscal goals, he was unsuccessful at bringing together a national coalition of philanthropic organizations. A divide between conservative and more liberal funding sources had started to form, and their ideas of the role of philanthropy in society were vastly different. While conservatives felt that Johnson's Great Society was creating a welfare state, the more liberal organizations felt that they should work with the government to focus more services on the poor and minority communities (Zunz, 2012).

It was also during this period that the earliest technology magnates began creating foundations. The formation of the William and Flora Hewlett Foundation along with the Packard

Foundation spread the presence of major philanthropy to the west coast. Until the 1960s, the northeast, and especially New York City, had been the unofficial headquarters of major philanthropic activity (Katz & Soskis, 2018). The Hewlett Foundation also revived an element of foundation giving that had fallen by the wayside – giving while living (Katz & Soskis, 2018). Katz and Soskis (2018) believe that William Hewlett's involvement with his foundation during his lifetime set a precedent for the tech foundations such as The Bill and Melinda Gates Foundation and the Chan Zuckerberg Initiative that followed.

21st Century – Philanthropy Evolves

The Turn of the 21st Century

Although it is unclear when the term was officially coined, it was toward the beginning of the 21st century that 'strategic philanthropy' entered the mainstream of charitable discussions (Rogers, 2015). The term has been used to identify a more deliberate and rigorous approach to philanthropic giving using the tenets of business and management (Fulton, 2018). Newly minted millionaires and billionaires of the period, many from the tech sector, began to use terms such as "venture philanthropy", "philanthrocapitalism" and "effective altruism" to define their business-minded approach to giving (Rogers, 2015).

While this may feel reminiscent of the approach of early philanthropists, there was a key difference. While Carnegie and Rockefeller took a business approach to setting up their giving operations, they did little to track and monitor the success of the enterprises they funded. In contrast with the billionaires of previous generations, these younger, more philanthropically minded foundation leaders were looking to move beyond the traditional grant making model and do more than just give money away (Ferris, 2015; Salamon, 2014). As Harvard Business Review noted, it was time for foundations to go beyond "doing good" and work on "doing better," (Porter & Kramer, 1999, p.122). These new entrepreneurs were more personally involved in the work, choosing to give money while they were alive, and in some cases, still working (McGlaughon, 2014). As a result, these methods were adopted by foundations in the hopes of reproducing the success the founders had experienced in the private sector (Rogers, 2015). This involved tackling social issues through identifying problems to be solved, the development of goals, both of which were often determined by the foundation, and measurements tied to outcomes (Fulton, 2018; Harvey, 2016; Rogers, 2015). As social entrepreneur Bill Drayton described the movement, "[it is not enough] to give a man a fish or even teach him how to fish. They will not rest until they have revolutionized the fishing industry" (Fleishman, 2007).

2008 Financial Crisis

Following a combination of several factors including the deregulation of major banks and mortgage defaults, the US economy fell into recession in the winter of 2008 (Singh, 2020). As a result of the economic fallout 5.5 million jobs were lost, and Americans suffered $360 billion in lost wages (Swagel, 2009). Additionally, the crash of the stock market led many to lose retirement funds and other savings, with wealth losses amounting to an average of $30,300 per household (Swagel, 2009). The effects of the recession would be felt by individual citizens for years beyond its official end as the job and housing markets continued to struggle (Singh, 2020).

The recession that began on Wall Street ultimately became a crisis across the country as the economic fallout caused record breaking loss in state revenues. States were forced to cut funding and not only did social programs and services suffer, government jobs were lost (Oliff, Mai, & Palacios, 2012). For example, as the crisis was heavily tied to the housing market, homelessness rose substantially, just as cuts to state budgets were leading to cuts in homelessness programs (Sard, 2009). State and local governments also sought to shift some of the responsibility of funding these endeavors to the private sector (Peck, 2013). All social services were impacted as government budgets were cut, and the non-profit sector was forced to grow to meet the increased demand for services (Mitchell & Berlan, 2018).

As the financial crisis set in, foundations had to act. Adjustments needed to be made to not only preserve endowments, but also mitigate any impact to grantee payments and support. As such, philanthropies focused on shoring up resources and focusing more on evaluation of grant impacts to preserve the public image of foundations as agents of positive change.

Volatile market threatens endowments

With the crash of the stock market foundations were forced to shift their focus to asset protection as endowments and other holdings were impacted (Anheier, 2009). With losses as high as 20%, foundations looked to their own operations and payout rates to, at the very least, maintain their giving levels (McGill, 2020). This was not possible for every fund making operation. When the Foundation Center surveyed the publicly declared intentions of the largest 100 foundations in the country, only The Bill and Melinda Gates Foundation announced that they would be increasing their giving in the year following the crash (McGill & Lawrence, 2009). While McGill and Lawrence (2009) cite this announcement as a "powerful example for others," there is no evidence that foundations changed their behavior or priorities as a result of Gates' announcement. Two-thirds of foundations surveyed anticipated reducing the number of grants and/or the size of grants they awarded as a result of the crash (Lawrence, 2009).

These tight times were temporary, however. While giving fell by 2% between 2008 and 2009, giving rates were constant between 2009 and 2010 (McGill, 2020). Since the economic crisis, foundation giving has almost doubled from $46 billion in 2010 to $80 billion in 2018 (McGill, 2020). Unfortunately, government cuts did not rebound in the same way. The combination of increased spending with decreased tax revenue led to cuts in the funding, especially at the state level, impacting the economy for several years (Bivens, 2016; Williams, Leachman, & Johnson, 2011).

Increased focus on evaluation and reporting

Although funding from foundations dropped only slightly and temporarily, even as giving began to rise again, a sharp focus on impact was developed to ensure every dollar was effectively deployed (Rourke, 2014). Additionally, government cuts to social service programs led to a growth in the number of nonprofit entities filling in the gaps (Sard, 2009). In this fight for a smaller pool of resources, nonprofits were looking for concrete ways to demonstrate their operations' impact and foundations were looking for reports indicating the same (Lee & Clerkin, 2017; Mitchell, 2014; Mitchell & Berlan, 2018). Although evaluation was not a new concept, the sector's growth also prompted increased scrutiny, generating a demand for transparency and outcome measures for the sake of accountability (Mitchell, 2014). A case can be made that foundations were simply engaging in evaluation so they could report that they engage in evaluation. A survey of 39 Australian foundations found that the majority used evaluation for purely supervisory reasons, and none reported an interest in measuring their impact (Williamson, Leat, & Scaife, 2017). There is also no indication that nonprofits were equipped to provide valuable information to funders in order to make these decisions. In a survey of Dallas area nonprofits, Hoefer (2000) found that even for those organizations that were performing evaluations of their programs, very few applied the level of research that could yield meaningful or actionable results.

It should be noted that these same concerns were raised in the 1970s when The Robert Wood Johnson Foundation became the first to actively deploy evaluation methods within its operation (Hall, 2004). In examining the use of evaluative research in several foundations in 1973, Weiss found that evaluations were often created with no indication of who would receive or benefit from the results. It was also found that even when executive directors and administrators were interested in an evaluation's findings, there was a rarely a plan to implement any changes as a result (Weiss, 1973).

2019 COVID-19 Pandemic

In late 2019 and early 2020, a new respiratory illness was being tracked in China and by March of that year the World Health Organization declared the spread of the virus labeled COVID-19 as a pandemic (World Health Organization, 2020). Two days following that announcement, President Trump declared a state of emergency in the United States and many states began to close schools and businesses (NBC News, 2020). As a result of these closures, and state governments implementing stay-at-home orders, individual travel declined sharply and businesses such as restaurants and retail shops were forced to either close or exclusively offer take-out/curbside service (Rosalsky, 2020). For their own protection and the protection of others, many Americans settled into a self-quarantine that lasted several months, leaving their homes only when it was absolutely necessary (Rabin, 2020). With these changes to everyday life, unemployment began to quickly rise as businesses were impacted by the closures and lack of customers. An unemployment rate of 14.7 percent was recorded in April of 2020, after 20.5 million jobs were lost in that month alone (Schwartz, Casselman, & Koeze, 2020). Even as states began to slowly reopen, the joblessness and stalled economic growth was expected to last for several years (Smialek & Rappeport, 2020).

As the pandemic changed the way of life for all Americans, the non-profit human services industry was hit in several ways. Most nonprofit organizations do not have enough cash on hand for minor emergencies, let alone global pandemics. A survey conducted by the Nonprofit Finance Fund found that in 2018, 75% of nonprofits reported having cash on hand that would last less than six months (Streitfeld, 2020).

On the one hand, some services such as food banks and organizations providing rent relief, became inundated with requests. Others were unable to operate under the new public health guidelines, leading to the loss of collected fees and an increased number of laid-off workers (Lenkowsky, 2020). Legal restrictions on large gatherings forced many nonprofits to cancel fundraising events such as galas, leaving them without a major source of income (Dorfman & Dorsey, 2020; Stewart and Kulish, 2020; Streitfeld, 2020).

Although the economy and social welfare efforts have suffered setbacks before, philanthropic organizations, especially endowed foundations, saw the pandemic as an opportunity to shore up the aid for the nonprofits they regularly support. Not only did they make changes within their individual operations, they encouraged others to do the same, creating an unlikely and unexpected movement across the industry. Seemingly independently, one by one, foundations began calling on each other to step up in new and innovative ways. The following provides some detail on the ideas philanthropic leaders have shared.

The Philanthropy Pledge

Coordinated by the Council on Foundations and The Ford Foundation, The Philanthropy Pledge (Appendix) was created to encourage philanthropic organizations to "commit to a long-term, collaborative approach to funding that can help our grantee partners weather this crisis today and forge ahead to address the challenges [of] tomorrow" (Pennington, 2020). Citing the unexpected nature of the global health crisis and the severity of the potential impact on the most vulnerable populations, the leaders of the pledge set forth eight actions, both short- and long-term, that the originators felt would better support those who rely on grant and philanthropic funding. Beginning with 40 signees in April of 2020, the pledge was signed by over 750 organizations by June (Council on Foundations, 2020).

The first three elements are the most relevant to the conversation regarding the grantor-grantee relationship as they pertain to the expectations placed on grantees in exchange for funding. The pledge suggests relaxing restrictions on how money is used on new and existing grants and when possible, allowing recipients to transfer grants to their general operating funds (Council on Foundations, 2020). The pledge also encourages funders to loosen restrictions on reporting and site visit requirements so that recipient organizations can focus their time and resources on serving their client base (Council on Foundations, 2020). Additional elements included contributing to solutions in the community and policy arenas, contributing to emergency funds and giving a voice to the issues deemed most important by the grantees (Council on Foundations, 2020). Finally, it is suggested that funding organizations learn from this experience to improve future practices that can be implemented "in more stable times" (Council on Foundations, 2020).

Give more

The debate over how much a funding organization should be obligated to give away has been going on for well over twenty-five years (Schmidt, 2008). Many funding organizations operate with the goal of existing in perpetuity, using the federally mandated payout of 5% as a ceiling, rather than a floor. Those giving only the minimum argue that they must protect the funding capital in order to assist others who will need help down the line (Daniels, 2017). There is also concern that fluctuations in the market could force some foundations to tap into their endowments in years with unfavorable returns (Daniels, 2017).

With the rise of the pandemic, this protection of assets has been highlighted as a problem to be examined rather than a necessary function of foundation operations. Questions arose of how a foundation or organization with a large endowment could justify stockpiling funds from which Americans could benefit in the midst of the pandemic turmoil (Bezahler, 2020). Even as the markets were showing instability, foundation and fund leaders were feeling a pull to give more (Dorfman & Dorsey, 2020). Charity reform scholar Chuck Collins (2020) asked foundation leaders to imagine if a food bank only gave away 5% of its food supply each year as people went hungry, saving 95% for a possible future need. Another foundation leader noted that if grant giving organizations are not willing to give all they have to a cause, they are simply operating as financial institutions and not catalysts for change (Ebrahimi, 2020). The leader of The Center for Effective Philanthropy, Phil Buchanan (2020) said:

> Deploying philanthropic assets to strengthen vital organizations doing crucial work in extremely challenging circumstances is more important right now than preserving endowment capital. The strength of a funder's grantees at the end of this crisis will be a much better measure of the significance of a foundation than the size of its endowment. Unprecedented challenges require unprecedented responses - and a casting aside of traditional norms and approaches.

Se-ah-dom Edmo, the executive director of the MRG Foundation in Portland chose to release funds from the organization's endowment stating that "Holding onto millions and billions of wealth while folks' lives are at stake is not what philanthropy should be doing . . . Holding back right now is immoral" (Daniels, 2020). The Wallace Global fund announced that in 2020 it would contribute 20% of its $100 million endowment to COVID-19 related efforts (Bradford, 2020). Moved by the pandemic and concurrent social justice movement, the heads of the

Compton Foundation, Stupski Foundation and Whitman Institute came together to announce their respective decisions to begin the process of spending down their entire endowments (Friedman, Galaich, & Infante, 2020). These leaders argued that spending down assets showed a true investment in the communities they serve and allowed them to focus one hundred percent on what the members of those communities needed at the time (Friedman, Galaich, & Infante, 2020).

The fact that there is a great deal of money sitting in endowments and Donor Advised Funds led a group of foundation leaders to approach Congress with a proposed rule change. Coordinated by the Charity Reform Initiative of the Institute for Policy Studies, Patriotic Millionaires and the Wallace Global Fund, 275 foundation trustees, donors and philanthropic leaders signed a letter requesting that congress temporarily double the minimum payout for private foundations and institute a minimum annual payout for donor advised funds. They argued that the very reason that foundations and donor advised funds are provided with tax incentives is to increase charitable giving (Emergency Charity Stimulus, 2020). As the tax incentives were already realized, there would be no additional cost to the government or taxpayers and would create over $200 billion in additional giving over the three-year period. With that in mind, they argued, there is no defense for holding back these tax-advantaged funds when they could be used to assist the public in a time of crisis (Emergency Charity Stimulus, 2020).

There are foundations that are unable to tap into their endowment capital as a result of the legally binding charters that guide the organization’s operations. The Ford Foundation is one such entity that, by design, must exist in perpetuity (Walker, 2020). Still wanting to answer the call of the immediate crisis, the foundation leadership opted to take on $1 billion in debt through bonds to fund more operations and projects over the next two years (Stewart & Kulish, 2020).

Four other major foundations are following the Ford Foundation's lead: The John D. and Catherine T. MacArthur Foundation, the W.K. Kellogg Foundation, the Andrew W. Mellon Foundation and the Doris Duke Charitable Foundation (Stewart & Kulish, 2020). All four foundations are taking creative steps to meet the vast and immediate needs created by the pandemic.

A Philanthropic Awakening?

When considering the tenets of conflict theory, the sector's reaction to the COVID-19 pandemic stands in stark contrast to reactions of the past. The control of scarce resources is being shared with fund recipients and grantee views and opinions are being solicited and incorporated into the work. Major structural inequities, such as the minimum payouts are being questioned by those who benefit the most from the practice. Additionally, foundations are working together and putting it on themselves to come up with innovative solutions in uncertain times. While it is too early to know if these changes will be long-lasting, the industry's new self-awareness is promising for its potential future impact.

Philanthropy Through the Lens of Conflict Theory

On the surface, sharing one's wealth with those less fortunate seems as though it would be an effective means of leveling the playing field. However, when its history is viewed through the framework of conflict theory, the philanthropic sector has perpetuated many of the power dynamics that reinforce its members' hold on privilege and influence.

The power begins with how the first private foundations were created, with funds from the oppression by the elite over the working class during the turn of the 20th century. There is then the consideration of the *control of scarce resources*. While philanthropists are in fact sharing their financial resources, there are other resources at play such as access and personal privilege when determining who will receive the available gifts. Control over these non-financial resources are maintained through the establishment of standards and practices that prop up *structural inequality*.

Sources of Funding

Simply giving money away fails to acknowledge the manner in which it was earned and the social/economic structure that the availability of charitable funds perpetuates (King, 1982). Anand Giridharadas, a contemporary journalist who has written extensively about American philanthropy, coined what he calls the *Aspen Consensus*: the “winners” of our age are always open to doing more good, but are not at all interested in doing less harm (2015). This is why, for example, as the ultra-wealthy accumulate more wealth than they could ever spend, it is still difficult to build support for balancing measures such as increasing the minimum wage or job creation programs (Callahan, 2017). As critic Jordan Weissman put it, “every dollar that [Amazon founder] Jeff Bezos gives away is in part a reminder that many of his workers could use a raise” (Piereson & Schaefer Riley, 2018, p.27).

This has been an issue since the creation of the first American foundations. Both Carnegie and fellow early philanthropist John D. Rockefeller were known for their low wages and treacherous working conditions (Giridharadas, 2018). Carnegie participated in a large and violent defeat of his workers who were attempting to unionize in his steel plants (Stamberg, 2013). This type of working environment demonstrates Marx’s explanation of the exploitation of capitalists, the bourgeoisies, over the working class, the proletariat (Crash Course, 2017). When Rockefeller was looking to incorporate his charitable organization in 1909, former president Teddy Roosevelt spoke out against the idea stating that charitable spending could not counteract the offenses committed in acquiring that which is being dispersed (Reich, 2018). This issue has persisted in the 100 years since.

Competition over Scarce Resources

The topic of how the elite obtain and amass resources is a discussion unto itself. However, even if the money had simply fallen into the laps of those creating and leading foundations, transferring those funds, regardless of the amount, does little to shift the balance of power. In the application of the *competition over scarce resources* element of conflict theory, it is the very *control* over money and less tangible benefits, not the funds themselves, that impact the power dynamic. The control is a resource in itself. In Bartos and Wehr's (2002) interpretation of conflict theory, they state that throughout the history of philanthropy, those at the top of the top of the pyramid have felt that it is their 'role' to distribute the 'scarce resources' that they have obtained in accordance with their personally held beliefs and 'values.' Those who choose to engage in philanthropy use these beliefs and values to decide what causes they are going to support and whose needs are most deserving of their attention. Williamson (2019, p.87) goes further, stating, "however benevolent a philanthropist's intentions, to donate money to others is to exert control over their lives." She explains that by default, giving becomes a means by which the wealthy receive the benefits of increased power (Williamson, 2019). An act meant to redistribute resources in fact serves to increase the power being exerted over the intended beneficiaries.

Not only do funders decide which causes they will support, they have often determined the specific actions and programming to tackle those causes. This power has been exerted time and again as funding sources have set the agenda for the organizations they support. Grantees have repeatedly been put in the position of accepting whatever funding will be offered, regardless of the specific instructions, strings attached or potential for impact (Dreier, 1997).

A key historical example of this control is the influence of the American Fund for Public Service over the NAACP in the 1930s. Francis suggests that the fund redirected the anti-lynching and anti-violence work of the NAACP by offering a large donation in exchange for action on desegregated education (2019). This focus on education became the driving goal of the organization in the decades that followed. While on the one hand the NAACP was able to maintain its funding, it came at a price. Their anti-lynching work was put on the backburner and struggled for support from both inside and outside of the organization in the decades that followed (Francis, 2019).

Structural Inequality

Per conflict theory, for the elite to continue to amass these resources and retain power, they must ensure that the larger lower class does not start to shift the distribution in its favor (Chappelow, 2020). Conflict theory asserts that the elite will institute "systems of laws, traditions, and other societal structures in order to further support their own dominance while preventing others from joining their ranks" (Chappelow, 2020). Two of the ways philanthropies have put systems in place to maintain their dominance is to lead with their own priorities and place the burden on nonprofits to demonstrate that those priorities are being fulfilled. Each allows the foundation to maintain its status as a benevolent giver without actually taking stock of what is being accomplished or putting in the work or resources to ensure that goals are being attained. As foundation leader Lori Bezahler (2020) said, " . . .in service to our own power [w]e hide behind process and procedure to ensure that grantees are always in the position of supplicant, always at a disadvantage because of the opacity of our processes; always held at a distance from where the decisions are made."

Funder led priorities

Private foundations are restricted by only one requirement when deciding where to disperse their resources, that the receiving organization be a 501(c)3 nonprofit (Reich, 2018). When choosing between nonprofits to fund, they are free to support whichever organization they choose for whatever reasons they choose. It has been customary for foundations to lay out their own goals and find nonprofit organizations that will help pursue them. There is a lack of consideration for the knowledge and experience of the people on the ground, who are living daily with issues of social justice. This is coupled with an assumption that those who have studied the topic known enough to not only address the issues facing those people, but select which issues are most relevant to their lives (Bezahler 2020; Cowan, 2020; Walker, 2014).

In a 2011 survey by the Center for Effective Philanthropy, 84% of CEO's did not engage beneficiary opinions in grant making decisions (Buteau & Buchanan, 2011). In a roundtable of foundation leadership, one participant noted, "you want to be more transparent to grantees, because grantees are carrying out what you want to have carried out . . . and so part of that partnership is for the grantee to understand" (Rourke, 2014).

A 2009 survey asked 1,200 foundations how they planned to move forward with their grant-making decisions given the recent financial crisis. Even as many organizations were forced to scale back their grant making from the previous year, funders still focused on their own priorities when making grant decisions (Lawrence, 2009). The top three considerations for future grant making decisions were reported to be board and leadership decisions (88%), economic and market conditions (88%) and their foundation's priorities (80%). In fact, beyond decisions to cut site visits to save on travel expenses, there was no indication that the crisis impacted how foundations interacted with their grantees. Additionally, there was no overt collaboration between foundations in an attempt to improve each other's processes and weather the storm together.

As the COVID-19 Pandemic hit, this approach to grantor/grantee relations made a shift. One element of The Philanthropy Pledge read:

> Commit to listening to our partners and especially to those communities least heard, lifting up their voices and experiences to inform public discourse and our own decision-making so we can act on their feedback. We recognize that the best solutions to the manifold crises caused by COVID-19 are not found within foundations (Council on Foundations, 2020).

In supporting the pledge, The Ford Foundation further emphasized this idea, expressing that grant makers must trust grantees to make decisions and take action that will best serve their causes, not only during the pandemic, but also beyond (Pennington, 2020).

Putting Self-Serving Systems in Place

As discussed earlier, when the 2008 financial crisis hit, private foundations began to require greater accountability from their grantees, notably in the form of increased reporting. The result of the increased evaluation and scrutiny was a thumb on the scales of power. While the dependence of grantees on the funders' resources has always created a complicated power dynamic, the expectation of yielding very specific results to improve the foundations' public images further entrenched the imbalance (Patrizi & Thompson, 2011; Thomson, 2011). Private foundations created a new set of guidelines that served their needs, without consideration of the grantees' position. Non-profits were being forced to bend over backwards to produce the results that the foundation staff deemed most important rather than focusing on their own goals as an organization (Rourke, 2014). As Darren Walker (2014), president of the Ford Foundation noted, “our culture has stigmatized program work that relies more on grantees’ perspectives than on grant-makers’.” Grantees were forced to focus on reporting at the expense of their work, sometimes having to hire additional staff in order to meet the evaluation requirements of funders (Harvey, 2016).

During this period many grant making foundations did turn some of their own attention to evaluation. In 2012, Coffman et al. (2013) found that of the foundations surveyed, 37% had created departments dedicated to evaluation in the previous two years and 50% of foundations surveyed reported increasing their investment in grant making evaluation in the same time period. However, foundations, just as in the 1970s, were not found to be effectively deploying the data and information received. As the practice of evaluation became more common, little focus was placed on adjusting priorities or grant activities as a result of knowledge gained (Coffman & Beer 2016; Coffman, Beer, Patrizi, & Thompson, 2013). In their survey of 31 foundations, Coffman et al. (2013) found that staff had little incentive to incorporate data into their decision-making processes as it is rarely used in any personnel evaluations. In fact, the majority of the 120,000 foundations in the United States have few or no paid staff at all (Sanow, 2019).

As they invested little of their own resources, and did not effectively use the feedback obtained, one could describe the attempts foundations made at evaluation as more performative than functional. Who was the true benefactor of this initiative? While foundations expressed that data collection and analysis were essential to demonstrating their impact, there seemed to be limited appreciation for the burden these expectations place on grantees, especially those with multiple funding sources (Bearman, 2008; Brock, Buteau, & Herring, 2012). Many nonprofits, then and now, work with several different funders, each with different funding cycles, reporting requirements and data delivery methods (Bearman, 2008; Brock et al., 2012). This new expectation of measurement combined with an environment of increased demand, led nonprofits to spend more time finding ways to demonstrate their operations' impact than they had in the past (Lee & Clerkin, 2017). In the Center for Effective Philanthropy's survey of nonprofit leaders, one stated they wished that the foundations would not "require that we identify and measure the outcomes as though it can be done without cost" (Brock et al., 2012, p. 6).

Moving Forward: Do the Work

The philanthropic sector's awakening as a result of the COVID-19 pandemic portend a potential shift in the industry. If some of the proposals suggested can be sustained and philanthropies continue to hold each other accountable, the practices of more private foundations will contribute to true social justice efforts. This is only a start, however. Here, I outline three suggestions for continuing to move the needle toward progress. First, increase philanthropic overhead spending; the responsibility for investment lies with the foundations. Second, move evaluation to the foundation level and third, shift grant funding to operation/capacity building. While asking the privileged to dismantle the system that provided their advantages may be too big of a bite to chew, taking on some of the burden of social justice and reform work may be a more palatable first step. Those who truly wish to do the most possible 'good' should invest more of their own time and energy into the act of giving. As Darren Walker (2019a), president of the Ford Foundation said, "get uncomfortable and become better."

Increase foundation overhead spending

To make an impact, foundations must be willing to do the work and take on more cost. There are several ways in which foundations can take steps within their own operations to better support their grantees. Steps such as streamlining application processes and investing in online systems will reduce the financial and time burden of funding requests. Furthermore, foundations could invest in a grant manager that can answer questions and support grantees in the application process. Funders should also take the time to work with grantees to develop effective evaluation queries and guide data collection efforts to the benefit both parties (Coffman & Beer, 2016). As noted above, most foundations do not maintain a staff (Sanow, 2019). Rather than simply writing a check, offer services that lift the burden of grant related processes and expenses.

Move evaluation to the foundation level – Share more across the sector

Researchers state that in order to get a true sense of the social impact of a project, it must be considered within the framework of all the initiatives that are being funded (Coffman et al., 2013; Ebrahim & Rangan, 2014). As the funding organization "sits at a higher level in the social sector ecosystem" (p. 119), it is uniquely positioned to analyze all of the pieces together (Ebrahim & Rangan, 2014). Moving the evaluation to the funder level may also allow for the development of reporting standards across sectors, supporting fields of work, rather than just an individual organization (Yang, Northcott, & Sinclair, 2017).

Shifting more funds toward general operating/capacity building grants

Increasing support for general operating funds was suggested as part of the philanthropy pledge. There has been movement toward this concept building for several years and it is worth emphasizing the benefit of supporting more general nonprofit operations. Following extensive research, The National Committee for Responsive Philanthropy released criteria for "Philanthropy at its Best." Within the extensive recommendations, they suggested that half of all grant dollars given should be for operating support (National Committee for Responsive Philanthropy, 2012). They go on to report that “general operating support is fundamental to enhancing grantee impact; it provides organizations with the flexible funding they need to achieve their missions effectively” (National Committee for Responsive Philanthropy, 2012, p.32). The Ford Foundation also saw the benefit of operating support and created the BUILD program in 2015 by investing $1 billion in long-term capacity grants. This funding allowed grantees to determine the best use of the funds and the freedom to “innovate, take risks and respond to real-time situation” (Pennington, 2020). The Paul Allen Foundation studied the success of over 510 long-term capacity building grants they issued over nine years. They concluded that nonprofits receiving long term operating grants were able to make progress in achieving their goals and sustain their operations beyond the grant period (The Paul G. Allen Family Foundation, 2010). They notice however, that smaller organizations had difficulty securing capacity building funding from other organizations, stifling their ability to grow beyond the initial grant period (The Paul G. Allen Family Foundation, 2010). Having general operating support and a plan for continuing that support was key to their grantees’ success.

Conclusion

Despite the system of philanthropy, the rich continue to get richer, and the wealth gap continues to widen in the United States. Why is the practice of philanthropy not doing more to level the playing field? Are philanthropists acting as agents of change in the lives of those less fortunate? Or are their practices, even as they give billions of dollars away, simply maintaining the status quo of inequality? Maintaining the social order that allows them to have billions to give away in the first place?

At first glance, the act of large-scale philanthropic giving appears to be a win-win situation. The wealthy can give back to their communities while enjoying a tax break, and the fund recipients receive benefits they might not otherwise obtain. Unfortunately, a closer look reveals power dynamics that simply perpetuate inequality, rather than level the playing field.

Conflict theory allows a categorization of the problematic elements of private foundations. Setting aside how philanthropists earn enough money to set up foundations, there are issues of privilege at play in the act of dispersing the foundation's funds. A foundation's control over who receives funds and when sets up a power dynamic that can be difficult for a nonprofit to navigate. Many grantees find themselves bending over backward for funds, altering practices and even missions to ensure funding. This allows the elite to maintain power over the changes they wish to see in the world around them without any consideration for what those around them need.

Conflict theory also suggests that the elite will set up systems and processes that will support their grip on power. A key example in the case of private foundations, is the movement to expect an increase in accountability and reporting following the 2008 financial crisis. Putting the work and responsibility of preparing reports and evaluations on the nonprofits being funded, allowed private foundations to appear to be invested in outcomes, while taking very few steps to engage their own resources. Private foundations saw the need for an appearance of accountability and set up a system that allowed them to achieve that goal without burdening their own operations. It was their position of power that allowed grant making organizations to set up the system to their benefit.

Changes began as the COVID-19 pandemic began spreading in early 2020. Private foundations saw the crisis as an opportunity to up-end the status quo and make changes to better support the organizations they fund. Philanthropists were willing to loosen their grip on the funds they distribute, offering more general operating support and loosening grant restrictions. Additionally, despite the economic instability of the moment, they were willing to dip further into endowments or come up with creative solutions to give more money to those who needed it. It is here that conflict theory loses the thread, while its tenets can explain the history of the philanthropic sector, there seems to be little tie to the actions being taken more recently. And while it must be acknowledged that not every foundation has taken these steps and this movement is only in its infancy, there is hope that this dynamic may improve to the benefit of all involved.

In 1906 Andrew Carnegie, a philanthropic magnate in his day, declared that it was "the duty of the man of wealth . . . to consider all surplus revenues which come to him simply as trust funds . . . and to administer [them] in the manner which, *in his judgment* [emphasis added], is best calculated to produce the most beneficial results for the community" (p. 12). The positive direction that philanthropy is currently taking can be illustrated by comparing this quote with that of a current philanthropic leader. In 2019(b) Darren Walker, President of the Ford Foundation said, "we must trust those we fund, and fund them adequately to do what they believe is best, *not what we think is best* [emphasis added]". Shifting the resources of power and control from the funders to the funded, is what will truly allow the wealthy elite to begin to genuinely lift up their "poorer brethren" and escape the charge of truly only being self-interested.

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Appendix

The Philanthropy Pledge

OUR PLEDGE

Over the days, weeks, and months ahead, each of our foundations pledges to:

- Loosen or eliminate the restrictions on current grants. This can include: converting project-based grants to unrestricted support; accelerating payment schedules; and not holding grantees responsible if conferences, events, and other project deliverables must be postponed or canceled.

- Make new grants as unrestricted as possible, so nonprofit partners have maximum flexibility to respond to this crisis. We will also support organizations created and led by the communities most affected that we may not fund currently.

- Reduce what we ask of our nonprofit partners, postponing reporting requirements, site visits, and other demands on their time during this challenging period.

- Contribute to community-based emergency response funds and other efforts to address the health and economic impact on those most affected by this pandemic.

- Communicate proactively and regularly about our decision-making and response to provide helpful information while not asking more of grantee partners.

- Commit to listening to our partners and especially to those communities least heard, lifting up their voices and experiences to inform public discourse and our own decision-making so we can act on their feedback. We recognize that the best solutions to the manifold crises caused by COVID-19 are not found within foundations.

- Support, as appropriate, grantee partners advocating for important public policy changes to fight the pandemic and deliver an equitable and just emergency response for all. This may include its economic impact on workers, such as expanded paid sick leave; increasing civic participation; access to affordable health care; and expanded income and rental assistance. It should also include lending our voices to calls to action led by grantee partners, at their direction and request.

- Learn from these emergency practices and share what they teach us about effective partnership and philanthropic support, so we may consider adjusting our practices more fundamentally in the future, in more stable times, based on all we learn.

  https://www.cof.org/news/call-action-philanthropys-commitment-during-covid-19