

# POST CARD

FROM BILL KERMODE

NEXT CEO Bill Kermode is currently on sabbatical. It is giving him time to write the occasional blog - and in this edition Bill shares some reading he has been doing.



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## Does Philanthropy Have a Place in Society?

A book called 'Just Giving - Why Philanthropy is Failing Democracy and How It Can Do Better' by Rob Reich had interest for me because reviews said it was critical of philanthropy and the way it worked – and it was.

The book was largely about the philosophy of philanthropy – not the private morality (eg. is philanthropy a better thing to do than private consumption?) but the public and political morality of philanthropy – its relationship to the state. Questions like 'Does philanthropy have a place in a liberal democracy?' And if it does, 'what role *should* it play?'

Reich defines philanthropy widely – charity is included, so individual giving is the largest giver for him (72%), and religion is the largest receiver (31%). But his key points were still relevant for NEXT.

He starts with the story of John D Rockefeller spending 12 years unsuccessfully lobbying the US Government to introduce a legal framework to enable philanthropic foundations to exist. That he was unable to do so was in large part because the idea was considered a threat to democracy. (Rockefeller Foundation was subsequently set up within New York state legislature.)

Reich points out that the current general state support for philanthropy is not the historical norm – it started only in 1917, having previously been viewed as contrary to democratic principles. "Foundations appear at odds with democracy, for they represent, by definition and by law, the expression of plutocratic voice directed towards the public good" was the prevailing view. Reich's arguments in support of that view are that they 1) are subsidised by the public, most obviously through tax deductibility (it is a voluntary activity, but it is a tax-subsidised voluntary activity - interestingly, Reich says Sweden is the one country that provides no subsidy structure for charitable giving), 2) have few or no formal accountability mechanisms, 3) have practically no transparency

obligations, and 4) exist in a legal framework designed to honour donor intent in perpetuity. He believes there is a case for that dissonance with democracy with much of the philanthropy in the world today.

But by the end of his book he has identified two reasons for foundations to have a place in a liberal democracy.

The first is pluralism – starting with the premise that in democracies the production of public good by the state is limited, in scope and in quality, by the ever present need to meet the wishes of the voting majority, Reich sees that philanthropic foundations' flexibility (and sometimes idiosyncrasy) can bring forth a pluralism, or diversity, of public good solutions which is positive for society – multiple potential solutions from entities unhindered by the constraints of the electoral system, rather than one solution from the then government with (at least) one eye on the next election.

The second reason he talks to is discovery, or innovation – foundations can stimulate public sector innovation through their much greater risk profile and time horizons. Democracies are structurally skewed towards 'presentism' whereas foundations don't have to be - so they can add valuably to the universe of possible solutions.

Reich's key questions are worth asking, because philanthropy can be viewed as an exercise of power, and because philanthropy sits within a set of legal rules that encourage it. Reich puts the argument against it, but in the end provides two good points for focus for strategic philanthropic activity adding value in a democratic society.

Bill Kermode