

Outlook Perspective

Plutocratic politics and the age of gilded giving

Public policy amplifies the role the rich play in philanthropy

By Rob Reich

Our era of gaping inequality may be a foe to civic concord, but it is a friend to private philanthropy. Every passing month seems to bring an announcement about a new mega-donation — Michael Bloomberg’s [\\$1.8 billion gift](#) to Johns Hopkins University being just the most recent to make headlines. The hoopla surrounding announcements like Bloomberg’s reveals our fascination with gifts of that scale. It also highlights a distressing trend in American philanthropy: the rising dominance of the wealthy in overall charitable giving.

The trend toward “Gilded Giving” is the subject of a [new report](#) by the Institute for Policy Studies . It confirms that we have shifted from broad participation in charity to an increasing dependence on the giving of the wealthy.

Fifteen years ago, households earning \$200,000 or more were responsible for only 30 percent of all charitable deductions. In 2017, however, they accounted for 52 percent of such deductions. Over the same period, there was massive growth in the number of private foundations and increasing warehousing of wealth in donor-advised funds (which allow donors to invest tax-exempt money, reaping immediate tax deductions, for future disbursement to nonprofit organizations).

The preferred causes of the wealthy diverge considerably from those of other people. Well-off people tend to donate to higher education, hospitals and cultural organizations like museums; middle-class and poor people give much more heavily to churches and religious organizations. Richer donors also give proportionately less to provide for basic needs, though no income group is especially inclined toward almsgiving. According to [a 2007 study](#) by the Center on Philanthropy at Indiana University, at best 22 percent of millionaires’ charitable giving is directed to the poor, compared with 31 percent for all donors. The more that nonprofits rely on contributions from the wealthy, the more difficult it becomes for those that serve the poor to receive support.

Philanthropic inequality might seem like a simple byproduct of income inequality: As wealth accumulates at the top of the economic pyramid, rich people naturally can afford to give more than others. But the imbalance in American philanthropy is more than a reflection of an economic reality that favors the 1 percent. It’s also a result of plutocratic biases baked into the public policies that structure how philanthropy operates.

Consider the mechanics of the charitable tax deduction, a century-old staple of American tax law: The incentive to give rises along with the donor’s income and tax rate. If a taxpayer earns the median individual income of \$31,000 and is taxed at a 15 percent marginal rate, for instance (the 2017 figure), then a \$1,000 donation will

effectively cost her only \$850. But someone netting \$300,000 annually and paying a 39 percent marginal rate can make the same \$1,000 donation — to the same charity, ostensibly producing the same social benefit — at an effective cost of only \$690.

In other words, it costs wealthy people less to participate in the time-honored and virtuous act of giving. Why should we target a giving incentive at the people who need it the least? If Bloomberg's income this year is large enough to allow him to deduct the value of his \$1.8 billion gift, then the billionaire's donation will be proportionately more subsidized than that of any middle-class donor to Johns Hopkins (or any nonprofit).

Worse, the tax incentive for making a charitable contribution is available only to taxpayers who itemize their deductions — people who do not take the standard deduction. And the people who tend not to itemize are the working class and the salaried middle class. This group was already large: Last year, roughly 70 percent of Americans took the standard deduction. But now that the 2017 Trump tax bill has taken effect, fully 90 percent will fall into that category, [according to the Tax Policy Center](#). For them, a \$1,000 donation will cost . . . \$1,000. (The change is the result of the increase of the standard deduction and the cap on state and local tax deductions.)

One way to blunt the bias in favor of giving by the wealthy would be to do away with the charitable tax deduction altogether. It could be replaced with a capped tax credit, available to itemizers and non-itemizers alike. For instance, all citizens might receive a tax credit of 25 percent of their donation, with the total annual credit capped at \$2,000. This would eliminate the upside-down incentive structure of the deduction yet preserve the liberty of everyone to continue making donations after the cap is reached.

More ambitiously, the government could stimulate greater philanthropic giving by offering taxpayers an additional credit (say, \$1,000), to donate to nonprofits of their choice after they contribute a certain proportion of their income to charity in a given year (perhaps 2 percent). Bill Gates wouldn't care much about an additional \$1,000, but it could mean a lot to other citizens. Call it a civil-society building grant that would bolster the ethos of giving nationally. And it would be a special encouragement to the middle class, whose rates of giving as a percentage of income are lower than among the wealthy, whose rates of giving are in turn lower than those of the poor. (You read that right: Studies show that as a percentage of income, the poor are [more generous](#) than the wealthy, with the middle class the stingiest.)

Alexis de Tocqueville celebrated the distinctive American tendency for all people to participate in civil society. Efforts like Giving Tuesday are in keeping with the that spirit of engagement. A record [\\$380 million](#) was donated this past Tuesday, with the average donation at roughly \$100. But behavior on Giving Tuesday is not typical of trends in charitable donations. Rich people will always have more money to give away, but our public policies should not amplify their already powerful philanthropic voices.

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