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Why Philanthropy is No Substitute for Taxation: A Case Study of Plutocratic Philanthropy in the UK

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LUNA GLUCKSBERG
LOUISE RUSSELL-PRYWATA
*Author affiliations can be found in the back matter of this article

ABSTRACT

This paper investigates the role of elite philanthropy in the context of rising global inequality, asking whether large-scale philanthropic donations by elites are well placed to help tackle structural inequality. The challenges posed by such 'plutocratic philanthropy' are explored through analysis of a network of the top 30 philanthropists in the United Kingdom and their connections to businesses and foundations, which shows their financial scale and connectivity. This new data is contextualised within the most recent social science literature on elites, which focuses on elite reproduction, how wealthy families perceive inequality, as well as how and why they engage in philanthropic activities. From this data, the paper develops an analysis of the current landscape of inequality, arguing that elite philanthropy as an ecosystem – made up of capital, people and institutions – is not well placed to systemically challenge inequalities, because the financial size of elites' philanthropy tends to be dwarfed by their business activities, and the social functions of philanthropy help maintain the advantaged positions of elites. The paper concludes with informed policy considerations on the role of elite philanthropy in light of the results of the analysis.

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CORRESPONDING AUTHOR:

Louise Russell-Prywata

Senior Atlantic Fellow, International Inequalities Institute, London School of Economics, UK

l.russell-prywata@atlanticfellows.org

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1. INTRODUCTION

'But, have you seen my Foundation?'

During years of research with UK based elites, whenever she asked about inequality, Glucksberg's respondents pointed her towards their charitable foundations [1]. If interrogated on taxation, the conversation would often turn to how philanthropy, including their own endeavours, was better placed to solve problems than taxpayer funded initiatives because, variously, philanthropists thought like businesses, were efficient, were not dependent on electoral cycles and did not suffer from endemic corruption. This is in line with existing research on US philanthropists [2, 3]. In short, elites view their philanthropic activities as a better, more effective ways to make progress in solving problems like inequality than paying more tax.

This article interrogates this way of thinking using a new dataset of the top 20 UK philanthropists and their business interests. We find original evidence of the existence of plutocratic philanthropy in the UK, and use this to assess whether the elites' claim stands up to the reality of fighting inequality.

Philanthropic funding has increased rapidly over the last decade, driven by large markets such as those in the US and UK [4]; in the UK, private bank Coutts concluded that philanthropy is experiencing a 'boom time' [5]. Although this funding is still small, even as it grows, compared to government official development assistance (ODA) – private foundations contribute an amount equivalent to five per cent of global ODA –philanthropic funding often has disproportionate impact [6]. For example, it has been particularly influential in driving provision in sectors such as health, and in shaping donor government priorities [6]. These philanthropic flows are closely connected to international public institutions and nongovernmental organisations, with most projects implemented through such institutions. The findings caused the Organization for Economic Cooperation and Development (OECD) to declare that 'private philanthropy is reshaping the development landscape like never before' [7].

There is an increasing concern that this growing influence of philanthropy is at odds with democratic governance and is, in essence, plutocratic [2, 3]. In this paper, we follow the work of Reich et al. [8] to question the dominant narrative that elite philanthropists are simply 'giving back' and acting against the structural inequalities that they themselves benefitted from. Within this narrative, where philanthropists aim to tackle inequality issues, their philanthropy is viewed as an efficient way of doing so than government interventions, for the reasons discussed above. Taking our starting point as individual members of the UK elite who are undertaking large-scale philanthropy, we situate their philanthropy alongside other areas over which they exert financial influence. In particular, we focus on their business affiliations, and examine literature investigating the mechanisms that elites deploy to maintain their advantageous positions in society, and consider whether philanthropy is one such mechanism.

This paper presents new, empirical data on the business interests of Britain's top philanthropists and demonstrates the presence and importance of plutocratic philanthropy in the UK. We show how the scale and influence of philanthropic giving in the UK is dwarfed by the scale and influence of philanthropists' corporate interests. This is important because these corporate and financial interests often drive the very inequality that their philanthropy is designed to ameliorate. We also highlight how philanthropy plays a role in helping elites legitimize their own wealth, and thus in legitimizing inequality. We conclude with informed policy considerations on the role of elite philanthropy. We argue that these combined factors cast doubt over whether philanthropy in the UK is well placed to help fight inequality, and whether policy concerned with reducing inequality is best directed towards the promotion of elite philanthropy.

2. INEQUALITY, PHILANTHROPY AND THE TOP 1 PERCENT

Social scientists – economists in particular – have produced robust data showing the scale of global and country-based economic inequality. Thomas Piketty's work has shown how inequality necessarily increases when, as is presently the case, the rate of return on capital is higher than economic growth [9]. In these circumstances inheritances and wealth accumulated in the past become more important in shaping an unequal landscape in the present and in the future, while income from labour becomes less important. Milanovic [10] has also demonstrated how inequality between countries is increasing, with the middle classes in rich countries being specifically affected by it. Zucman et al. [11] estimated the amount of wealth lost to individual countries through tax avoidance by the global elites, and the effects this has both on the countries that lose the tax income but also on the tax havens used to shelter it.

It follows that those who already have capital – the elites – increase their wealth, whilst those who have to earn an income fall behind, and inequality increases. This reality is in contrast with the continued neoliberal discourse justifying inequality on the basis of both meritocracy and on the hard work of 'self-made' individuals. Within this frame, sociological studies – not just of elites per se, but of elite reproduction – have been trying to understand the mechanisms which allow these families to successfully pass their wealth down a generation to their heirs and maintain their familial status.

The current global rise in inequality has been labelled as the defining challenge of our century, matched only by climate change. Indeed, the scale of the issue is vast. According to the 2018 World Wealth Report, the combined wealth of HNWIs grew 10.6 per cent over the course of 2017, surpassing US$ 70 trillion [12]. On an aggregate level, it has been estimated that up to US$ 58.1 trillion of private wealth will be 'transferred and divided among heirs, charities, estate taxes, and estate closing costs' over the next generation, in the United States alone [13 p14].

Harrington [14] demonstrates the role of the wealth management sector in the accumulation processes that allow wealthy individuals and families to retain and grow their fortunes through the use of different mechanisms. Most often they centre around the use of foundations and trusts located in off-shore tax havens. Further, Glucksberg [15] found that cultural and gendered processes are at play in the practice of both accumulation of wealth and of its intergenerational transmission, with women playing key roles in undertaking the family's philanthropic activities. Indeed, the successful transmission of wealth, which we know to be among the top priorities of billionaires and ultra-high net worth individuals, is not an easy, risk-free process [16]. It involves substantial investment in terms of emotional management and affective labour, usually carried out by the women of the family, as well as the hired wealth managers [17].

Inheritances can and often are squandered in legal fights, divorces, arguments and feuds or because of a lack of effective stewardship. Families are aware of these risks and often put in place succession plans, with the help of consultants and advisors. More and more elites are learning that inheritors are 'made' throughout their lives; they need to be educated [18] and socialized into their wealth if they are to be successful at handling and – crucially – passing it down to the next generations when their time comes [19].

On the other hand, recent work on how elites feel vis-a-vis the rise of inequality has generated some useful, if troubling, insights. Hecht's [20] work on financial elites shows how her respondents felt, at the very least, ambiguous about inequality per se as being a problem. Forthcoming work by Glucksberg about family offices shows how wealthy families are primarily concerned with their own ability to survive as elites, and how they perceive themselves as exposed to the risk of capital dissolution through the generations [21]. In what Glucksberg describes as 'slipperiness' at the top of the distribution curve, the families privilege their own individual perspective – fear of personally slipping down the steep inequality curve – over the aggregate rise in inequality, with wealth flowing towards the top, which the world at large is more concerned by.

Alongside this literature, there is a growing body of research on elite philanthropy. Throughout the paper, we use this term to refer to charitable giving at significant scales undertaken by wealthy individuals (following Ostrower) [22], as opposed to a broader definition of philanthropy that would include all charitable donations made by individuals. Elite philanthropy has been used to describe both high net worth individuals (HNWI; net assets of US$ 1–30 million) often giving tens of thousands per year through philanthropy, and ultra-high net worth individuals (UHNWI; >US$ 30 million in net assets) whose philanthropic giving may be millions of dollars per year [23]. As the number of individuals in both of these categories increases globally, elite philanthropy is becoming more widespread [23]. This paper focuses solely on ultra-high net worth individuals as this is where concerns about elite philanthropy are primarily directed [2].

The idea of philanthropy as plutocratic, meaning that it is economic elites who are dominating the field through the sheer scale of their giving, is rapidly gaining traction [2, 24]. So far, however, the main empirical research has focussed on the United States, where annual giving from economic elites is estimated to be US$ 52 billion. The economic elites in the UK are one of the larger philanthropic actors in the western world, albeit not a comparable scale to the US, with UK foundations estimated to donate US$ 3 billion (GB£ 2.4 billion) each year, and growing [25]. In addition, there is a tendency in the research to focus mainly on the philanthropic activities of elites rather than situate them in the context of other financial activities, such as business activity; a gap this paper moves to address.

In the context of literature on elite reproduction and inequality, philanthropy can be used by families and their advisors in two important ways. Firstly, Sklair [26] demonstrates the importance of forging a narrative able to capture the new generations' imagination, so they can commit to continuing in the footsteps of their predecessors. Philanthropy helps cement the stories that families choose to tell about themselves, for example their commitment to environmental, educational or medical causes around the globe. This is especially important when the children are young or going through their teenage years and are liable to rebel against a purely materialistic view of their future. Thus, the new generations are socialized into the family as an elite dynasty, to view it as an entity that will continue beyond their own lives and which requires commitment not just to their own wellbeing but to that of their future generations.

Secondly, philanthropic giving is often used to teach children of the families' preliminary lessons on financial investment: for example, they may be given a certain amount of money, which they are free to donate as they wish. However, they then may be required to present to the family a plan justifying their reasoning and their choice of a particular charity, as well as being required to report back over time as to how their 'investment' is doing and how the charity is performing in pursuing their objectives. Here, philanthropy serves as a pedagogical tool to educate children into thinking strategically about how to invest money wisely and to argue their point in front of adults potentially preparing them to present to a board when the time comes. Of course, should they make a mistake and the charity turns out not to be doing well, there is no real downside for the family; but the potential to teach children very valuable lessons whilst also increasing their positive exposure as givers is clearly a substantial lure [27].

3. METHODOLOGY

Our empirical research investigates the scope and extent of the financial influence of elite UK philanthropists, and how business and charity connections are situated alongside philanthropic giving. Specifically, we ask:

1. How active are elite UK philanthropists within the corporate world, in terms of current board level positions?
2. How does the financial influence of UK elite philanthropists exerted through philanthropy compare with the size of corporate activity over which they have influence?

Social network analysis is used to situate the philanthropic activities of elite philanthropists alongside their business interests. This makes the extent to which they concurrently hold influential corporate positions visible. The subjects of empirical study are individuals at the pinnacle of elite philanthropy [2], who each gave a minimum of GB£ 4 million (US$ 5 million) in philanthropic donations within a one-year period.

Social network analysis has been widely used to study links between institutions that are formed by individuals holding multiple board positions, known as 'board interlocks' [28]. It allows the extent of connections to be studied amongst groups of elites rather than at an individual level; for example, it has been used to analyse elite Danish society to identify a national power elite [29]. This group level of analytical focus is valuable in moving the discourse beyond critiques of individual philanthropists towards analysis of philanthropy as part of a wider system of elite reproduction. This is also the level at which philanthropy is licensed by and incentivized by the state, so understanding elite philanthropy at this level is essential to developing effective policy.

Analysis of the connections stemming from specific individuals – referred to as the mapping of 'ego networks' – has been used to understand the role of individuals in influencing corporate behaviour [30]. The research presented in this paper employs a similar ego network approach to construct a network comprising business and philanthropic activities of elite UK philanthropists. Two datasets were combined to form the network. A sample of 30 elite UK philanthropists was collected using the top entries on the 2018 Sunday Times Giving List (STGL) [31]. The STGL is compiled annually

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by the UK Association of Charitable Foundations (ACF) and published by a UK national newspaper The Sunday Times alongside The Sunday Times Rich List [STRL; 32]. In the year under review, the 30 selected philanthropists made philanthropic donations of at least US$ 5 million.

As philanthropy in the United Kingdom is only regulated to a limited extent, it is not possible to say with certainty that the elite philanthropists in the were those donating the largest amounts of money. The STGL uses publicly available information, so it is possible that some donations have been omitted, or others overstated. However, a high mean giving level of US$ 73.9 million ensures that the sample comprises elite philanthropists.

To measure connections to companies, data was collected on all current board level positions held by the 30 philanthropists in large companies. These data were obtained from the Bureau van Dijk Orbis database, a source of company information containing 250 million companies globally. To measure the financial scale of business, charities, and charitable foundation entities that philanthropists have connections to, the annual operating revenue of all entities was collected from Orbis, which is an established measure of overall size of organisational activity. For this study, its use has substantial advantages over other measures such as market capitalisation (for companies) or endowment size (for charitable foundations): operating revenue gives a more meaningful measure of overall scale of activity during the year, and can be used for companies, charitable foundations and charities.

For each philanthropist, the following steps were undertaken to build the network:

1. Review STGL entry and related STRL entry, recording name and total annual philanthropic giving (converting GBP to USD). Note biographical information including year of birth or age, and company and charity affiliations.
2. Locate the philanthropist on Orbis; confirm year of birth and affiliations to ensure the correct individual has been identified. For all current board level positions at large companies, charitable foundations, and charities, record the position, the name of company and the date position commenced.
3. For each company, charitable foundation and charity, record operating revenue in US$ for most recent available year. To simplify the network, dormant and small and medium sized companies (as per Orbis classification) were excluded from the dataset; this is considered valid as the focus is on large-scale financial influence.
4. Where doubt remains over the match between name of the philanthropist and Orbis entry, cross check with the Charity Commission register[1] and UK Companies House register.[2] Data were only included in the study if at least two identifiers could be verified.

4. RESULTS

The empirical data collected show the 30 elite philanthropists in our sample have enormous financial influence: together, these 30 philanthropists ‘gave or generated’ US$ 2.2 billion for charity in the year in question. ‘Gave or generated’ is the term used by STGL, and it should be noted that this encompasses a broad range of activities that are philanthropic in essence, even if they do not have immediate charitable impact. A common example is endowing a charitable foundation that the philanthropist retains control over.

Between them, the 30 philanthropists held (at the time of data collection) current board level positions in 62 large companies with annual operating revenues totalling US$ 46 billion. They held board positions for nine charities, whose total annual operating revenue was US$ 664 million, and held board positions for 32 charitable foundations with annual operating revenue totalling US$ 1.3 billion. It should be noted that the US$ 1.3 billion figure for charitable foundations is likely to include a significant proportion of the total US$ 2.2 billion given to or generated for charity. The graph in Figure 1 provides an overview of the distribution of the philanthropists’ connections, representing operating revenue using a logarithmic scale in order to shrink the size difference between nodes to a level at which the full graph can be viewed.

1 https://apps.charitycommission.gov.uk/showcharity/registerofcharities/RegisterHomePage.aspx.

2 https://beta.companieshouse.gov.uk/.

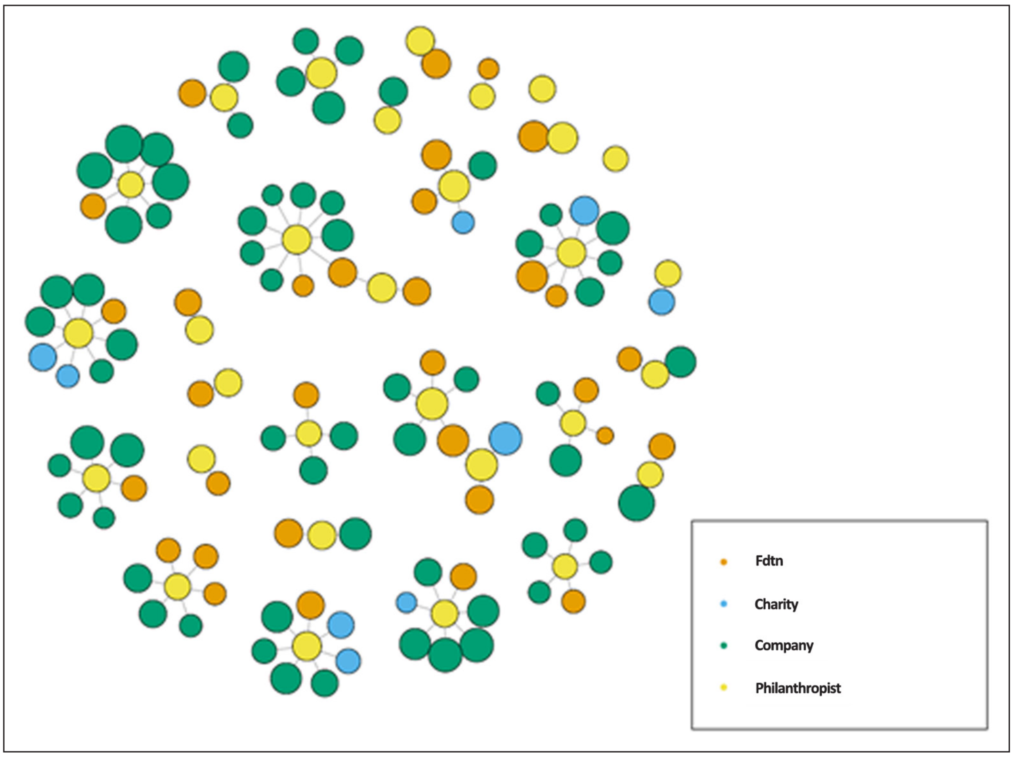

Figure 1 Company, charity and foundation connections of top 30 philanthropists on STGL 2018.

Source: Russell-Prywata's data.

Notes: Organisation nodes sized by annual operating revenue; philanthropist nodes sized by annual giving. Sizing represented on logarithmic scale (thus a small size difference on this graph indicates a substantial difference between the two figures in USD).

The network highlights the overall dominance of business connections compared with charity and foundation connections, both in terms of number and financial size. Looking more closely at business connections, current board level positions in large companies were identified for 19 of the 30 philanthropists. For all but five of these, multiple positions in large companies exist, and in the vast majority of cases business interests exceed philanthropic interests in size, often dwarfing them. This can more clearly be seen in Figures 2 and 3, in which company, foundation, and charity nodes are sized by annual operating revenue, and philanthropist nodes sized by annual giving, using a normal (non-logarithmic) scale. Figure 2 includes all nodes and shows that a small number of business nodes dominate the graph due to being so much larger in financial size than other nodes. Figure 3 removes the eight nodes of size greater than US$ 1 billion – all of which are companies – to illustrate more clearly that even when these largest nodes are removed, business connections still dominate.

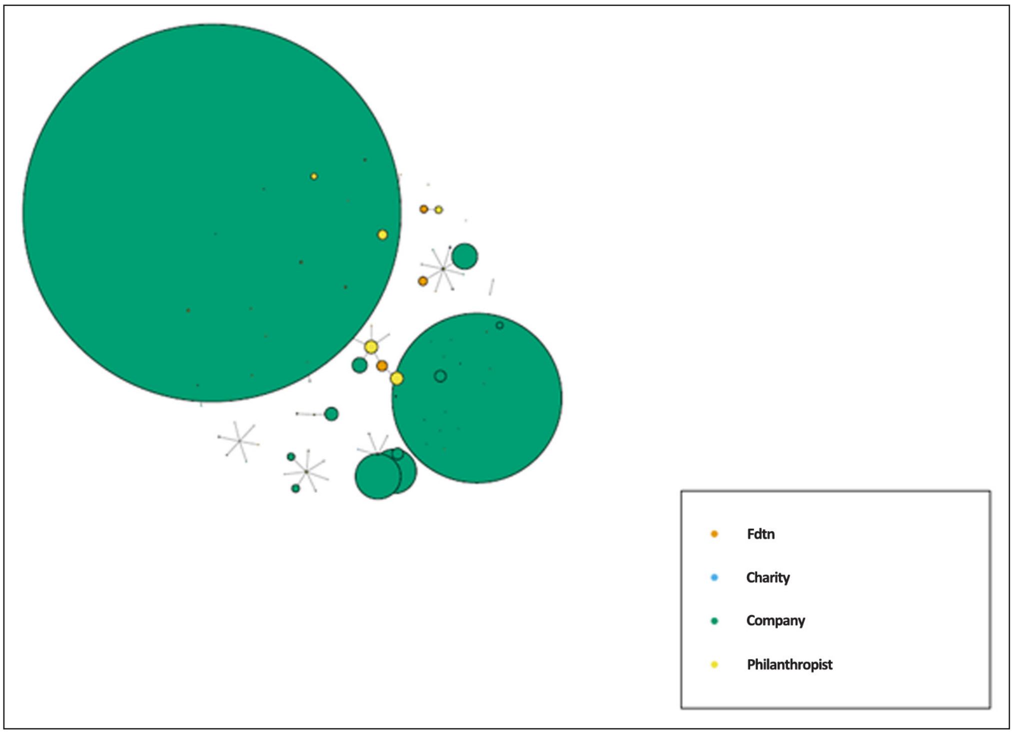

Figure 2 Figure 1 presented on a non-logarithmic scale.

Source: Russell-Prywata's data.

Notes: Organisation nodes sized by annual operating revenue; philanthropist nodes sized by annual giving.

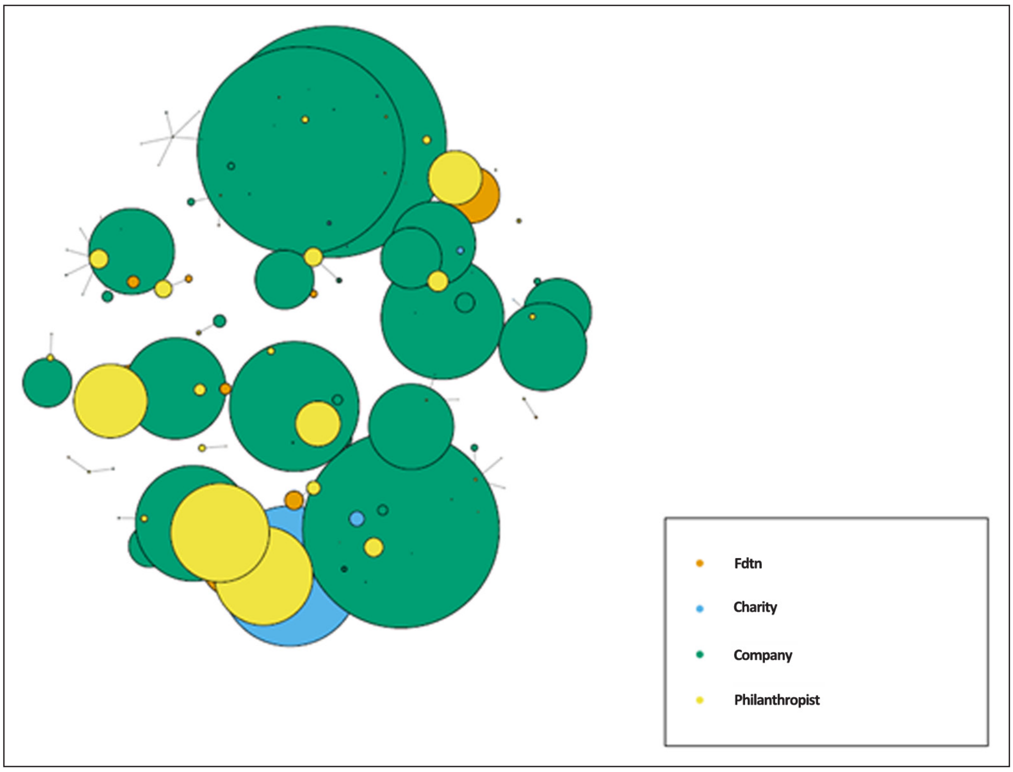

Figure 3 Company, charity and foundation connections of top 30 philanthropists on STGL 2018 with operating revenue < US$ 1 bn.

Source: Russell-Prywata's data.

Notes: eight nodes with operating revenue of > US$ 1 billion have been removed, all of which are companies. Organisation nodes sized by annual operating revenue; philanthropist nodes sized by annual giving.

Despite the dominance of business connections, according to Orbis, 11 of the philanthropists did not have current board level connections to large companies. A review of the biographical information accompanying the STRL entries indicates that four philanthropists previously held such positions but had sold their businesses or had stepped down from large company positions prior to the data collection period. A further two philanthropists are artists, and operating in this sector may account for their lack of large company connections. From the biographical information in the STRL, only one philanthropist appears to have inherited wealth without accumulating significant new wealth. Insufficient information was available for the remaining three; however, biographical information suggests that their partners have accumulated substantial wealth. All of these philanthropists are female, and from the data collected it is not possible to determine whether wealth was generated by a spouse, inherited, or both. However, it is a potentially interesting finding given that the sample is so gender skewed.

Of the 30 philanthropists in the sample, 23 are male, 3 female, and 4 are listed on the STGL as a couple. For the couples, the authors checked Orbis data for both partners and found that all board level affiliations to large companies were held in a male partner's name. In contrast to sociological research that highlights the importance of elite women in maintaining and undertaking the softer, philanthropic efforts that allow elite families to reproduce socially [15], this study suggests that when it comes to financial influence, elite philanthropy is still a very male dominated field. However, only a tentative conclusion is possible, as this may be an artefact of the STGL methodology; males may be more likely to be high profile or go public about their philanthropy.

5. ANALYSIS

We have presented a ground-breaking network analysis of the top 30 philanthropists in the UK and their business and philanthropic interests. This data demonstrates the clear presence of elite philanthropy in the UK. When compared with an estimated US$ 12.7 billion of total donations by individuals in the UK (not including those made through entities such as foundations), it is clear that elite philanthropy is operating at a significant scale [33]. The donations made by just the 30 elite philanthropists in the sample are equivalent to 17 per cent of total giving by individuals in the United Kingdom each year.

The data demonstrates that the philanthropists in our sample also have multiple and sizeable business interests, suggesting they are able to exert substantial influence in society through both their business interests and their philanthropic activities. This kind of conjunction has been referred to in US literature as 'plutocratic philanthropy' and this paper demonstrates empirically its presence and importance in the UK context as well [2].

We situated this in context of literature showing that elites, especially dynastic families, engage in philanthropy in an instrumental way, to create narratives about their families that their descendants – the next generation – will feel comfortable subscribing to erasing less savoury elements of the story of how the family acquired and accumulated wealth over time. Research further reveals philanthropic giving to be a useful pedagogical tool used by families to educate their children on how to select appropriate causes, how to monitor their spending, and how to present and justify their reasoning to an older group of family members. This pedagogy is in preparation for their own business careers.

What is more, both new financial elites and multi-generation elite dynastic families do not see themselves as causally implicated in the growing economic inequality the world at large is experiencing. They perceive themselves as either deserving of the wealth they have accumulated through skill and hard work, or fear its dissolution down the generations [20, 21]. In both cases, but particularly the latter, they consequently pour their energies towards ever more complex financial and legal structures, such as trusts incorporated in off-shore territories, to try and protect their capital in perpetuity [14, 27].

Savage [34] used the image of a mountainous landscape to describe the present and future state of inequality in the United Kingdom today. The difference from the past, he explains, is that the peaks are much higher and the slopes are much steeper than they once were. He points to times like the 1960s, when inequality was low and social mobility high. The climb today is harder, with the advantaged, the middle classes and those he categorizes as elites – roughly the top six per cent – doing all they can not only to climb up themselves, but also to help their children up, who start their ascent further up the slopes than others and are therefore more likely to climb higher. A similar point has been made with regard to the US by Reeves [35].

Savage was only considering the UK context, and considers the top six per cent of his sample as elites. Our concern here is of a different nature, since we are concerned with a much smaller number of elites, likely no more than the top 0.1–1 per cent globally. However, Savage's metaphor of economic inequality as a mountainous landscape can be applied to a global level, one, with steeper climbs and more forbidding peaks. When we consider their wealth in the context of the influence they hold in the corporate world, and compare it with their charitable donations, the corporate rewards dwarf the philanthropic donations, to a degree that it is difficult to meaningfully visualize using a standard linear scale (see Figure 2). Whereas the donations are akin to pebbles or grains of sand being tossed down the mountain, the wealth resembles huge boulders, being relentlessly pushed further up the mountain.

The scale of the inequality is most starkly displayed by the fact that one billion people currently live on less than one dollar per day, while the richest eight men on the planet now control the same amount of wealth as the bottom half of the population [36]. We are clearly facing a systemic issue that cannot be fixed with charitable donations if the donors continue to accumulate wealth at even faster rates at the top. As such it is evident that elite philanthropy, on a systemic level, is not well placed to bring about the fundamental shifts in distribution of economic resources that is needed to address global inequalities.

When it comes to individual projects and donations, it is clear that some large-scale philanthropy is funding important and socially valuable activity to reduce inequality. For instance, providing healthcare to marginalised communities or funding campaigning and other activities designed to 'change the system' rather than merely ameliorate the effects of current inequality. However, our data suggests that large-scale philanthropy in the United Kingdom is led by financial elites. Analysed in the context of the sociological literature, this philanthropy performs valuable functions that assist those elites in maintaining their advantaged positions, and tends to be financially dwarfed by their business influence.

This leads us to conclude that regardless of short- and medium-term positive effects on inequality of some large-scale philanthropic initiatives, the existence of elite philanthropy at its current scale, and the increasing trend for charities and campaigning groups to rely on it, represents an obstacle on a genuine path towards greater global equality [37]. It makes more palatable the accumulation of huge amounts of wealth in the hands of a few and furthers the belief that individual gain and global inequality are structurally unrelated, indeed that one can help fix the other.

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6. CONCLUSION

This paper has brought together cutting-edge sociological research on elites, inequality and philanthropy with a network analysis of the top 30 philanthropists in the UK, for the first time mapped in relation to their business and philanthropic interests. In view of our data and our focus on how elites think about inequality and philanthropy, our initial question of the role of philanthropy in the amelioration of the state of rising inequality finds a tentative, possibly unpalatable answer. Far from helping to challenge structural inequality, at a systemic (rather than individual project) level, the ecosystem of elite philanthropy appears to facilitate and help elites retain their advantaged positions by legitimising the system producing the inequalities they benefit from in the first place.

There are other factors outside the scope of this paper that will also influence the overall ability of large-scale philanthropy to challenge inequality, such as policies relating to wealth taxation and regulation of philanthropic donations and legal entities. These should be explored further in future research. We also acknowledge that philanthropic interventions may, as Reich – like some of Gluckerberg's elite respondents – argues, in some cases be advantageous compared with democratically mandated support, for example through permitting experimentation and long-term horizons [3]. Again, incorporating this in an overall assessment of elite philanthropy may be a fruitful avenue for future research.

In terms of policy implications, our findings caution against increasing reliance on elite philanthropy to challenge structural inequality. Given the substantial and often wide-ranging financial influence of elite philanthropists, combined with the beneficial social and intergenerational effects of philanthropy for elites themselves, our work highlights the need for the incentives and policy structures that support elite philanthropy to be analysed in the context of other financial interests of elites.

Furthermore, our findings suggest that in order to successfully reduce inequality, stronger actions are required to prevent and control the level of wealth accumulated by elites. In addition to public policy shifts in areas such as the taxation of wealth, simply collecting more of the revenue that elites currently avoid by diverting profits offshore would be a significant shift – for example an estimated 10 per cent of the world GDP is held in tax havens globally [11]; such revenue would undoubtedly be better used to meet the democratically assessed needs of our societies and their citizens.

There is a pressing need to advance such an agenda. The growth in elite philanthropy, both in the UK and elsewhere, appears set to continue [25]. Governments are increasingly partnering with – and depending on – private wealth to support the delivery of public goods at home and abroad [37]. Identifying where elite philanthropy may in fact be an obstacle to challenging systemic inequalities, and taking action to change this, will be essential to driving genuine progress to achieve the economic equity envisaged in the Sustainable Development Goal 10 to 'reduce inequality within and among countries.'

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COMPETING INTERESTS

The authors have no competing interests to declare.

AUTHOR AFFILIATIONS

Luna Glucksberg orcid.org/0000-0002-7029-0969
International Inequalities Institute, London School of Economics, UK

Louise Russell-Prywata
Senior Atlantic Fellow, International Inequalities Institute, London School of Economics, UK

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