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# On the Sociology of Wealth, 2016

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The wealthy are caught in the high-beam headlights of toxic rhetoric around equity, inequality, greed, power, excessive affluence, and influence of the wealthiest 1%, and the anger that has generated, especially in the American society. That this has become a hot issue in the political circus we are currently in is an understatement, and it will persist long after the presidential election has been decided.

On the one hand, this is hardly new. The love-hate relationship with wealth in the history of the U.S. has ebbed and flowed forever. But perhaps not since the era of Andrew Carnegie and John D. Rockefeller, when these two men, the wealthiest in the country, were vilified for what was perceived as, and often was, cruel and ruthless action in the monopolistic creation of vast wealth, has the heat been so high. In fact, when Mr. Rockefeller approached Congress with the idea of establishing a federally licensed philanthropic foundation, the level of vilification and distrust was so strong that Congress refused. It is ironic in that it led to the formation of the Rockefeller Foundation as a private foundation and charted the course for the way American philanthropy developed. Had Congress acted otherwise, the influence of government in private philanthropy would have been very different. It is even more ironic that both Carnegie and Rockefeller went on to establish a remarkable philanthropic legacy that continues to be a model of transformation, positive social impact, and how private wealth can in fact be invested for the common good. Whether the still relevant “Gospel of Wealth” and the multiple good philanthropic works that these two men accomplished led to redemption is still open for debate.

This is the messy democratic stew that in 2016 is reaching a fever pitch. Today the names that have become metaphors for the power and influence of vast wealth are the Koch Brothers on the right; George Soros on the left; Wall Street, the biggest excess-maker and corrupt culprit of all; and, close behind, powerful global corporations who have no moral center and no allegiance to country, who follow the lure of lower taxes and less regulation and now, courtesy of the Supreme Court, are able to finance on an unlimited scale political and lobbying campaigns, often without any disclosure at all.

Somewhere in the messy stew is "big box" philanthropy led by Bill & Melinda Gates and Warren Buffet, whose huge and, arguably, magnificent foundation is accused of being the "gorilla in the room" that suffers from arrogance, lack of transparency, and the "who elected you" syndrome. The Gates Foundation is not alone, and this week in the NYT the Broad Foundation was accused of undue influence in the San Francisco public and charter school controversy, one of the many criticisms leveled at foundations aggressively pushing the charter school agenda. Frank Karel, who brilliantly led communications for both the Robert Wood Johnson Foundation and the Rockefeller Foundation, famously said, "Philanthropy does not rest easily on the bosom of the American society." And it does not.

The "why" of all this is hugely complex, but rooted in the dramatically increased division between rich and poor, both in the U.S. and globally. The astonishing data that places control of 60% of U.S. wealth in the hands of literally a handful of the super-wealthy underscores a rising tide that has not lifted all boats. The middle class especially has been losing – not gaining – ground. The real median wage earned for men in the United States is lower than it was in 1969. Median household income, adjusted for inflation, is lower now than it was in 1999.[1] It simply is harder today for many to make a living in the U.S. and support a family than ever before. Persistent poverty has shown modest improvement but remains pernicious for 11% of Americans.

Many books, including Thomas Piketty's best-selling *Capital in the Twenty-First Century* (2013), which describes how those who begin with wealth have an insurmountable advantage over those without wealth, have attempted to define the concept of equity and income inequality. Other studies have traced the huge advantage that children of well-educated upper-income families have in the society. Both old media and new social media continue to add data that fuels the growing anger toward, and mistrust of, wealth.

If the above is a limited, and discouraging, context for the problem, it raises the question of what are realistic responses for those with wealth, the families and individuals who are in the 1%, even if their wealth is nowhere on the scale of the very wealthiest. The average wealth of the top 1% in the U.S. is $14 million – a lot of money but nowhere near the level of those mega-wealthy who are the names most mentioned.

The actions of any one family would not influence what is such a complicated economic and political issue, but, collectively, positive action by those with wealth could, over time, be a great positive influence. I would make the case that the wealthy should not be in denial of the implications of the issue. There are many practical reasons: Increased taxes for the upper income are almost at this point a given. More regulation, reductions in charitable giving limits, increased payout requirements for foundations, which could lead to eventual sunsetting of all foundations,

[1] Tyler Cowen, "Is Innovation Over?" *Foreign Affairs* (March/April 2016).

and pay-out requirements for donor-advised funds have been on the legislative agenda for several years.

Many of these proposed changes are not unreasonable and may even be overdue, but the conventional response from wealth industry advocates and lobbyists on any of these changes has been to fight them. The same response, perhaps even more vigorous, has come from major nonprofit groups like the Independent Sector and the Council on Foundations, as well as new and influential foundation advocacy groups. My read of this conventional response is that it is dead wrong and that it will only exacerbate the debate and increase the negative feeling toward wealth - even “good wealth.” It will further make suspect and, therefore, reduce the potential for some of the exciting new social innovation and entrepreneurship tools, including new hybrid corporate forms. A much better response is to get out in front of these proposals and use the opportunity for substantive dialogue on the moral dimension potential for wealth in our society.

More important to families than these financial and tactical concerns are qualitative issues. No one likes to be put on the defensive in the communities where one lives. No one wants a diminution of family self-worth, of increased fear, of unwanted exposure, or be forced to live an ultra-private life, or be constrained to speak out or play a lead on important social issues about which one feels passionate. All these things lead to withdrawal and less, not more, investment of a family’s human and financial resources at a time when the societal need and opportunity is greater than ever before.

Here are my suggestions, based on my quarter-century plus TPI experience of working with hundreds of families of wealth and their advisors, for some practical questions that could become the basis of family discussion and action.

1. What is our family’s definition of “wealth with responsibility” – how do our passions and values drive that definition? What “Guiding Principles” would help us be true to ourselves?
2. What “public persona” do we have today, and what do we wish to present to the outside world in the future – being anonymous and invisible is not an option in this Web-based information accessed environment – and how do we become more intentional in communicating that public persona?
3. How do we as a family, and as individuals, truly engage in the broader world? What does engagement mean – time, talent and experience, contacts and networks, and financial resources?
4. What are the bridges between our isolation, our privilege, and others who do not have those resources?

   a. Philanthropy has been for many families a very successful bridge. What role does strategic philanthropy play for us, and how do we develop the competence and governance for a great philanthropy?
   b. A family's investment philosophy and policy can also be a bridge. How do we integrate our values and principles into a comprehensive investment philosophy and policy?
   c. How expansive a role does social and impact investing play? Where are the lines between social investing and traditional philanthropy?
5. How do we prepare and educate family members around these questions? How do we manage the "guilt" syndrome, the feeling of being somehow different and the fear of being a target?
6. How do we measure and evaluate whether we are successful in these objectives?

Many financial and philanthropic advisors to the wealthy address some of the above questions, and we would urge that those discussions go deeper and are made part of the ethos and culture of the relationship between advisor and client.

Could this become a movement? There are existing efforts like the Giving Pledge, which encourages billionaires to commit half or more of their wealth to society. There are high-profile models of individuals – Pierre and Pam Omidyar (founder of eBay), Steve and Jean Case (co-founder of AOL), and, most recently, Priscilla Chan and her husband, Mark Zuckerberg (founder of Facebook), who have made major societal social commitments based on their own answers to these kinds of questions.

Why do this? For me the answer to the "why" question is that the leverage of passion, will, creativity and wealth has the most untapped potential to make the world a better place. There is no higher aspiration for any generation.

**The above was adapted from an address to team at Ascent Private Capital Management of U.S. Bank. Ascent is a division of U.S. Bank whose clients have net worths in excess of $75 million. Peter Karoff is a member of the Ascent Board of Advisors.**