

Does Wealth Come With a Social Contract To Do Good For Society?

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The short answer is no. There was once an understanding that wealth comes with responsibility but that is no longer the case and we need a social contract now more than ever. Why? Because only a minority of the rich is philanthropic and that is a problem when, according to *Credit Suisse*, 1% owns almost half the world's wealth. There is evidence that extreme inequality is bad for governance, social cohesion and economic growth (*IMF*). There is no evidence that the trend towards greater inequality will end. We should worry about the prospects for future generations.



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We are supposed to be charitable. Evolution has shaped us by favouring altruism as well as ambition. We developed a biological need to help others because this was the best way to sustain and prolong life.

We know that the most successful and stable societies are those where the rich and powerful demonstrate commitment to their fellow citizens by being philanthropic. The concept of charitable status began in sixth century BC Greece when tax exemption was offered to hospitals, orphanages and schools. The rich were encouraged to fund temples, armouries, granaries and festivals of drama. Philanthropy became a badge of pride, an emblem of civic loyalty and the mark of a good citizen. Greek civilisation was once one of the world's greatest.

In the second century AD, Rome decreed that gifts of legacies could be made in perpetuity, providing the legal framework for our trusts and foundations. Since then, philanthropy has shaped contemporary Britain. Hospitals, hospices, schools, universities, museums, libraries, parks, all manifestations of a civilised society, were originally funded by philanthropy.

Our Victorian forbears were canny wealth creators. They understood the links between commerce and community and saw the potential for maximising the value of their wealth. They transformed our

cities by philanthropic investment in projects that benefited their communities. Thus, in the nineteenth century, private and public were united by mutual interest. According to the social contract of the time, philanthropists enjoyed public acknowledgment and found personal fulfilment.

Although the Industrial Revolution generated great wealth, the state had to intervene at the beginning of the twentieth century because charity could not alleviate the threat growing poverty posed to civil society. With the introduction of the welfare state and high taxes after the Second World War, many of the wealthy abandoned philanthropy.

Since the Thatcher/Reagan neo-liberal settlement 35 years ago, the few have become phenomenally wealthy whilst the incomes of the many have stagnated. It is true that mankind has never been so prosperous. Globalisation and technology have lifted billions out of poverty. The income gap between nations is narrowing but inequality is growing within some countries.

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Concern about inequality is no longer confined to the Left. Although income inequality has recently stopped growing in Britain, there has been a significant trend since 1980.

According to the *OECD*, the share of national income going to those on the lower half of incomes in Britain has fallen by 25% whilst the slice going to the top 1% has increased by 50%.

The *High Pay Centre* reports that top executives in FTSE 100 companies earned 47 times employee's average earnings in 1998 and 143 times that in 2013.

The *Social Market Foundation* reports that between 2005 and 2012/13, in terms of income, the top 20% saw their median wealth rise by 64%, while the wealth of the bottom fifth dropped by 57%.

The *Resolution Foundation* reports that whilst earnings are returning to pre-recession levels, median earnings for those aged 22 to 29 were 12.5% lower in 2014 than in 2009.

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Personal tax in Britain has fallen from a top rate of 96% in the 1960's to 45%. The principle argument for lowering taxes was that the creation of more wealth would benefit all of society. Although personal wealth has soared for a few, 'trickle down' has not materialised. There are 117 sterling billionaires based in Britain, almost double the number in 2009, but there has been no increase in charitable giving in Britain to reflect a phenomenal growth in personal wealth in the past thirty years. Meanwhile, tax avoidance in Britain is estimated to be equivalent to the cost of local government and our armed services.

Those with higher incomes are right to claim that they are paying more income tax than anyone else. However, including indirect taxes, the *Office*

For National Statistics confirms that the poor pay proportionately more tax than the rest of us. In 2012/13, the wealthiest 10% paid 35% of their gross income in tax whilst the poorest 10% of households paid 47%.

In 2013, I wrote my book *Giving is Good For You*. I was urged to do so by those generous philanthropists who are concerned about the failure of most of their peers to give, confirmed by a Coutts bank report that only 10% of those selling a business engage in significant philanthropy.

I quoted a member of one of Britain's most well known and most philanthropic billionaire families:

"What has gone wrong is any sense of responsibility. We currently have a system that positively encourages tax avoidance and doesn't do enough to encourage giving. Our problem is that not enough people are committed to the concept of the common good. By not giving, some of the rich are generating a culture in which they are despised. If we continue to have a society that encourages a lack of responsibility, then we are heading for trouble".

What happens to civil society when the welfare state is cut? Is the voluntary sector able to compensate if charitable giving remains stagnant and only a minority

of the rich is philanthropic? Is civil society, and by implication, our liberal democracy, sustainable given current trends towards growing inequality, limited economic growth, record levels of debt, high youth unemployment, the threat to middle class jobs posed by automation and the escalating cost of an ageing population?

Opinion surveys confirm that there is a disconnection between people and institutions and a lack of trust in politicians, business, financial services, the police, the health service, the media and religious leaders. Lack of trust is corrosive and not good for the health of civil society. Fewer people vote, particularly the young. Belief in the common good is compromised in an era of fragmentation.

Working with public sector and other partners, philanthropy can deliver positive social change.

What does the future hold for the young? Currently, finding a job and affording a home is a challenge. Youth unemployment remains high at 16.2%. For the first time in generations, the young are less well off than their parents and grandparents and will inherit an increasingly unequal world in which the wealthy accumulate unaccountable power. This could have profound implications for the future of civil society. Will our descendants inherit a plutocracy rather than a liberal democracy?

There are no answers to these questions. We face the future in a political and moral vacuum. Religious imperatives to give are much diminished as is political leadership. Most politicians do not understand philanthropy and distrust philanthropists and their motivation. There is no vision for the long term and little apparent understanding of the challenges ahead. The future of civil society cannot be assured without coherent political and moral leadership. The time is ripe for a new 'settlement' that redefines the responsibilities of the public, private and voluntary sectors and of individual citizens.

There have always been limits to what the state can do and we must expect the state to do less in future, putting additional pressure on civil society and the voluntary sector. There are also limits to what the charitable sector can deliver. We shall always need an enabling state and those who believe that philanthropy can compensate for a smaller state are deluding themselves. However, philanthropy can support what the state cannot undertake, the traditional role for charity in the past. By working with public sector and other partners, philanthropy can deliver positive social change.

The post-war political, economic and social model is in trouble. We must find new ways of doing things. Our problems give us an opportunity to think about what we may learn from the past in order to meet the challenges of the future. In 2011, *The Financial Times* called for a more socially responsible form of capitalism. In a new age of enlightenment, it would be clear to entrepreneurs that philanthropy and social investment should be a priority and in their own interest.

One way forward may be for philanthropists to join forces with others who are committed to the common good. Partnership should enhance impact. That would require the voluntary sector to adapt. Moreover, whilst the British remain keen volunteers, we have lost our culture of philanthropy and must create a new one by reviving commitment to the common good, the bedrock of civil society since civilisation began. This will not be possible without political leadership and until we teach our children about the virtues of civil society and their personal responsibility for sustaining it. Learning how to be a good citizen should be embedded in the curriculum.

Now is the time for the wealthy to follow the example of their forbears by showing leadership through philanthropy. By reaffirming a social contract between the citizen and the state, they will set an example we may all follow. Whoever leads should be considered very smart. How long must we wait?

*John Nickson is the author of *Giving Is Good For You*, published in 2013. He was responsible for fundraising at The British Council, English National Opera, The Royal Academy of Arts and Tate. He is also a philanthropist and a trustee of a number of charities, including The Royal College of Music. His second book will be published in 2016.*