

Philanthropy in an elite-biased democracy: Strategies in times of crisis¹

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Abstract

This paper offers a theoretical integration of philanthropy within the framework of *elite-biased democracy*, as proposed by Ansell and Samuels (2014). In this setting, philanthropy is driven by industry-level investment, rather than individual charitable giving. Multiple investment instruments are available to philanthropy, and endowed foundations stand out as a default organizational arrangement protected by the institutional prerogative of perpetuity. However, in times of crisis, philanthropists reconsider their strategies and re-examine the idea of perpetuity. Presenting an exploratory analysis of the evidence provided by two major trends in philanthropic investment in the last two decades –spend-down foundations and Donor-Advised Funds (DAFs)– the paper lays out four ideal-type scenarios to understand how the factors in the system will influence the choice of philanthropic strategy that weakened elites will adopt in the aftermath of a crisis. This theoretical perspective explores the pivotal role that the technological transition (“green transition”) is bound to play in philanthropy: a shift in investments and a sectoral rebalance in the economy will have major consequences for the practice of philanthropy. Thus, investment-driven philanthropy reveals its potential as part of the “green transition”, and its connection to the variety of coalitions and strategic interactions involved in the “Joint Democracy Game”, as well as its particular contributions to democratization and economic sustainability. Implications for the funding of research and science are also considered.

Keywords: Philanthropy, Political Economy, Democracy, Foundations, Economic Transitions

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1. Introduction

A stream of political economy literature has emerged roughly in the last decade to bring new elements to the analysis of democracy: the *elite-biased democracy* approach, or elite-competition approach (Ansell and Samuels, 2014; Menaldo, 2016; Albertus and Menaldo, 2018). This analytical framework is founded on the core idea that democratization is not built 'from below', as it has long been assumed, nor does it pursue popular, widely shared political views. Instead, according to its proponents, democracy is built on the stronghold that a number of elite groups have on society, and any major changes or transitions are essentially based on the interests of those groups.

This paper presents an argument that integrates philanthropy within the framework of elite-biased democracy. After decades of scholarly work, philanthropy continues to be a multidimensional subject with a blurred scope and porous boundaries (see, for instance, Edwards *et al.*, 2014; Barman, 2017; von Schnurbein *et al.*, 2021). To date, major debates continue on how to weigh and bring together both the informal and formal institutions, organisations and practices of philanthropy. However, given that philanthropy relates strongly to the redistribution of economic resources, the focus here is on its economic character and intrinsic connection to key economic dynamics. More concretely, this paper examines philanthropy in its relation to wealth accumulation and the economic structure, in the context of an elite-biased democracy.

Thus, this paper departs from the conventional economic understanding of philanthropy based on individual charitable giving and utility considerations (Andreoni and Payne, 2013; Andreoni, 2015). Instead, it adopts a broader perspective, one that acknowledges the productive and social processes of the economy where philanthropy is embedded. Such broader view builds on multiple features addressed over decades in studies of economic growth, technological change, distributional transitions, and their organisational, entrepreneurial and behavioral aspects (see, for instance, Kuznets, 1955; Hirschman, 1958; Hirschman and Rothschild, 1973; Holcombe, 1998; Chang and Andreoni, 2019; Lavoie, 2022; De Martino *et al.*, 2024).

In the elite-biased democracy framework, crises are considered an opportunity for democratic reform. In regards to philanthropy, this paper examines how elite donors evaluate their options in the aftermath of a crisis, and may undertake changes to their philanthropy strategies, with consequences for the deepening of democracy and overall economic outcomes. The analysis is focused on two types of strategies that have been on the rise for the past 20 years: spend-down foundations, that is, foundations that have decided to put an end to their organisational life (also known as time-limited foundations or sunset foundations), and Donor-Advised Funds (DAFs). While the number of philanthropic instruments has expanded in the last 30 years –mostly driven by investment instruments (Salamon, 2014), this paper examines in particular these two types of strategies as representative of a dilemma in the way donors aim to retain control of their investments and influence on philanthropy.

Ultimately, philanthropy must be understood as part of the economic system. The transmission belt that connects it with the production and investment dynamics must be fully

acknowledged. This will offer an opportunity to envisage new configurations of the system that respond to questions of technological and social sustainability. At the end of the day, the choices that elites make in regards to their philanthropy strategies boil down to choices of technology and investments. They involve, in turn, choices and restrictions on the use of time in the productive, public and private spheres.

The shift in investments envisioned as a requisite for widespread technological transitions, clustered under the banner of the ‘green transition’, will then have major consequences for the funding and practice of philanthropy. Are elite philanthropists, in their capacity as investors, willing to move the needle in this respect? While DAFs ensure greater flexibility and control over investments in established areas, a spend-down strategy has the potential to help achieve the technological transitions, but the details of its implementation will reflect the underlying priorities of those leading the process and will show if that potential will actually be achieved, and how well it will align with democracy.

This paper is structured as follows. After this introduction, the second section lays out the key contours of the elite philanthropy phenomenon that is the subject of the paper. A fundamental feature of elite philanthropy is its strong dependence on private investment and the institutional rules and market mechanisms that sustain it. In this case, investment is embodied in endowments and the foundations that hold them. Associated to the institutions that sustain investment is the notion of perpetuity, a prominent operational principle of foundations. Yet, the two types of strategies studied in the paper gain relevance when one considers a critical political and economic environment that challenges the practice of perpetuity. The third section gives an overview of spend-down foundations and donor-advised funds (DAFs), introducing the critical factors that drive donors to move away from perpetuity and to adopt one of these strategies. The fourth section presents four propositions about how the factors in the system will influence the choice of philanthropic strategy in the aftermath of a crisis. The fifth section offers some exploratory considerations on the potential legal transformation of philanthropy. The sixth section outlines a few further extensions to the analysis, which could be of interest for future research, and concludes.

2. Philanthropy in an Elite-biased Democracy

The literature on the political economy of development has long been concerned with the study of democratization. The dynamics between economic growth, inequality and political participation has been at the centre of this project. Conventional approaches focus on what has been called the redistributivist models (Boix, 2003; Acemoglu and Robinson, 2001, 2006; see Ansell and Samuels, 2014). However, such models have been challenged due to their weak empirical support (Alesina and La Ferrara, 2005; Milanovic, 2010; Ansell and Samuels, 2014; Acemoglu *et al.*, 2015).

One response to this analytical impasse is the *elite-biased democracy* framework (Ansell and Samuels, 2014; Menaldo, 2016; Albertus and Menaldo, 2018). This perspective makes a blunt assessment of democracy and departs from the idea that democracy is built ‘from below’ and that it pursues popular, widely shared goals. Elite-biased democracy is characterised instead by the presence of several social groups, some of them are elites and

some are non-elites. Elites are divided into incumbents and outsiders. These two groups are engaged in an ongoing conflict over power as the outsider elites see in the incumbents a threat to their property rights. In turn, the non-elite groups are potential coalitional partners for outsider elites to fight incumbents and bring about a regime change that, to some extent, will improve their material conditions.

The starting point of analysis is the theoretical integration of philanthropy within the elite-biased democracy framework outlined above. Instead of charitable giving or individual behavior (Andreoni and Payne, 2013; Andreoni, 2015), philanthropy here is anchored in investment, profitability and industrial structures strongly reliant on monopolies and oligopolies, a typical expression of economic elites (Boulding, 1962; Raddon, 2008; Roelofs, 2015; Maclean *et al.*, 2021). This does not mean that other forms of philanthropy, such as those based on communal bonds or small-scale solidarity, are not important or unworthy of cultivation or study. Rather, what this means is that all these different forms complement each other, even though the focus here is on what could be called ‘price-making’ philanthropy; that is, a dynamic that shapes philanthropy by transforming the underlying economic structure and outcomes, where investment has a potential to be realised.

2.1. Investment as the Source of Philanthropic Funding in an Elite-biased Democracy

A world of elite-biased democracy is a world where private investment in the industrial sector plays a critical role in the growth process, even though the gains of investment and growth are skewed towards a few (Menaldo, 2016; Ansell and Samuels, 2014; Beramendi *et al.*, 2019). Financial development and investment come eventually to play a major role in this setting as well (Menaldo and Yoo, 2015).

This paper posits a general social setting to understand better the reasons for the existence of philanthropy. We can consider a social system of production, made up of multiple industries and social groups where investment is a core engine of the economic system. Industries have idiosyncratic traits, both technical and organisational, and they are comprised of multiple processes, on both of these dimensions. These are sources of variation that inevitably give origin to inequality, and at any given time, some of these social groups will be left behind. Not all the industries will achieve the same degree of success in their efforts to organise the production, articulate their interests when needed, or react to new forces in the economy. This setting borrows from an extensive literature on the determinants of economic growth, technological change and distributional transitions, as well as their organisational, entrepreneurial and behavioral dimensions (see, for instance, Kuznets, 1955; Hirschman, 1958; Holcombe, 1998; Chang and Andreoni, 2019; Lavoie, 2022; De Martino *et al.*, 2024).

Both the technical and the organisational aspects are major sources of inequality. Philanthropy is meant to address the resulting disparities, relying in principle on solidarity-based mechanisms. However, as economic elites take hold, their consolidation and outreach affect the social space and resources (including the available time) for the expression of solidarity and redistribution mechanisms among non-elite groups and between elites and non-elites. This is one of the main aspects in which this paper departs from the notion of philanthropy as individual charitable giving, as in Andreoni and Payne (2013). The elite-biased

character that the economy progressively takes on implies that a large part of philanthropy is increasingly reliant on wealth accumulation and inequality. The profits made on investments are central to sustain both the economy and the philanthropy space.

The type of philanthropy that emerges from economic elites is embodied in endowed foundations. Endowed foundations rely on private investment and an institutional prerogative to exist in perpetuity, provided the market conditions are favourable to that goal. Perpetuity in this case is not a metaphysical, ethereal, intrinsic quality, as the word may suggest. Instead, it is the result of a political bargaining process and a legal system that is adjusted to give room to that prerogative (see, in particular, Soskis [2020] and Horvath and Powell [2020] for the history of perpetual endowments in the U.S.; Strachwitz [2015] and Adam and Lingelbach [2015] for the case of Germany). Yet, perpetuity as an operational principle of endowed foundations has been increasingly questioned, and is the subject of many current discussions around new paths forward for philanthropy.²

We need to consider now in more detail how elite philanthropy fits within the framework of elite-biased democracy and the ‘elite-competition’ approach. There are three major aspects that shed light on this connection: first, the consolidation of elites and how the competition among elites plays out in philanthropy; second, the social contract and the ‘promise’ that is at the heart of philanthropy; and finally, the way in which economic crises and uncertainty shape elites’ philanthropic strategies (which will be the focus of Section 4).

2.2. What Does an Elite-biased Democracy Mean for Philanthropy?

The wave of elite-biased democracy studies in the last decade takes as its starting point a view of social classes that differs from that in the redistributivist models. Elite-biased democracy analyses address the dynamics among multiple elite groups and potential interactions with non-elites.³ Ansell and Samuels (2014) develops an elite-competition approach where outsider elites fear the overreaching power of incumbent elites. The main threat are the incumbent elites, rather than the redistributive demands from the poor. The presence of multiple groups opens the door for outsider elites to form coalitions with non-elite groups. Thus, Ansell and Samuels (2014) and Albertus and Menaldo (2018) depart from the conventional assumption of the redistributivist models that there are only two classes: the rich and the poor. Instead, the elite-biased world is filled with a variety of sectors and groups that can become focal points of political mobilization. This setup is also crucial to understand the emergence and dynamics of coalitions, a critical component in the analysis of regime change and transitions to democracy.

This perspective is similar to that adopted by Hirschman (1958, 1971) and Olson (1982), in their rejection of an analytical framework based on two social classes. Instead, their worldview is comprised of multiple social groups (either active or latent) and potential

² The pledge to perpetuity appears to have decreased over time, particularly among foundations created in the last 40 years (Foundation Center, 2009).

³ Ansell and Samuels (2014) starts with a critique of the median-voter model by Meltzer and Richard (1981) and the political economy analyses that have been built on it.

coalitional actors. According to Hirschman (1971), change will come from the interactions among such groups, rather than a grand revolution carried out by any given single group. In this respect, he calls to look for ‘specific “agents” or “carriers” of change’ (Hirschman, 1971, p. 22) and to move away from ‘the obsessive search for the vanguard or spearhead of the revolution, for the one or at least the principal class or homogeneous group that can be counted on to overthrow the existing order or to effect needed changes.’ (Hirschman, 1971, p. 22).

The split among elites involved in philanthropy has a number of expressions. The fact that some foundations operate under the principle of perpetuity, whereas others were established with a limited timespan from the outset, and still for many others this is an unsettled question, open to ongoing assessment, reflects this split. Thus, elites reveal different preferences for perpetuity vs. time-limited foundations. A variety of industrial origins and economic interests, as well as different areas of philanthropic support (education, health, housing, the arts, among others) are another expression of the split among elites. Even more, philanthropy allows for the maintenance of the territorial aspect of elites through the concentration of funding in given geographic areas, in many cases the areas influenced by the business operations and commercial interests of the companies that give origin to endowed foundations. An especially interesting venue for elite competition in philanthropy is the think-tank and research space, one that major funders try to influence with the goal of attracting attention from policy circles and shaping the policy process in critical fields (Roelofs, 2015; Maclean *et al.*, 2021; Vogel and Shipman, 2023).

A second aspect that brings philanthropy to the purview of an elite-biased democracy is the idea that there is a ‘promise’ implicit in the social contract of democracy, which philanthropy will help materialise. Increasingly democratic scenarios offer, at least in principle, the chance for a better life and greater well-being. Philanthropy plays a part in that, funding service provision in multiple areas and contributing to build a sense that things will get better and that people just have to be a little more patient. But, over time, if the fruits of democratization cannot be reaped at some sensible level, the promise loses its credibility and people get frustrated.

Hirschman and Rothschild (1973) described what they called “the tunnel effect” to examine how the expectations of a good future – ‘the promise’- can evolve over time, as different social groups benefit from democracy and development at a different pace –or not at all. If those expectations are not met, the threat of social unrest looms in the horizon. As these authors put it, there is a changing tolerance to income inequality along the development process. Adverse outcomes and social stagnation after nominal democratization feed into systemic uncertainty. In this case, people get sceptical that philanthropy will be able to deliver on promises of more prosperous, inclusive livelihoods and upward social mobility, under the prevailing economic conditions. A powerful source of tension with the ‘promise’ are the tax benefits and other regulatory privileges granted to foundations. The bias in public spending toward the already privileged groups, even after a democratic transition, is a consistent ‘stylised fact’ found in multiple studies in developing countries (see, for instance, Lindert *et al.*, 2006; Acemoglu *et al.*, 2015). The exemptions, subsidies and policy benefits that

foundations enjoy arguably fall under this category. As people realise the magnitude of these benefits, it is almost inevitable to get a sense that the field is tilted toward a few.

The third major aspect is that in an elite-biased democracy, economic crisis and uncertainty can serve as major game-changers that open new opportunities for outsider elites and other social groups to join forces to form coalitions and push for reform (Albertus and Menaldo, 2018; Albertus *et al.*, 2025). Whether a financial crisis, a fiscal crisis, or even a natural disaster, these shocks set the incumbent elites in damage-control mode and push them to devise strategies to deal with the crisis. Depending on the severity of the crisis, it may even take the elites to the point of seeking a bargain to exit their ruling position on as good terms as possible (like in the canonical case of new democratic constitutions, examined by Albertus and Menaldo, 2018).⁴

The next section introduces two types of philanthropic strategies that have rapidly increased in popularity: spend-down strategies and the establishment of Donor-Advised Funds (DAFs). They have been major strategies in response to a widespread crisis. However, these two strategies represent different approaches to the investment that underlies elite philanthropic funding, and, accordingly, to the technological outlook (and room for its potential transformation) that underpins private investment.

3. The Rising Trends of Spend-down Foundations and Donor-Advised Funds

Economic elites have played a leading role in philanthropy; this phenomenon can arguably be thought of as one of the mechanisms by which elite-biased democracy is sustained. While endowed foundations operating in perpetuity have been the norm for a long time, a critical examination of perpetuity is increasingly taking place nowadays. At the same time, two strategic approaches have been on the rise for the past two decades, reflecting changing attitudes to philanthropy and reinforcing the split among elites.

First is the trend of spend-down foundations. These are foundations that have decided to impose a time limit to their formal existence as an organisation, set a close-by date and spend down their entire endowment in pursuance of its organisational mission. Some foundations make the spend-down choice at their inception, while for others the decision is the result of an assessment of evolving conditions and the development of a new mindset. To be fair, although the spend-down trend has gained steam lately, setting spend-down foundations is far from new. The first wave of these foundations can be traced back to the early 20th century.⁵ At the time, they were a rather fringe tier of philanthropy, and operating in perpetuity was the norm. Some of the most famous examples of spend-down foundations are the Rosenwald Fund, which operated since 1917 until 1948; more recently, the Atlantic Philanthropies, which finished its closing down process in 2020, and the Bill and Melinda Gates

⁴ Burt (1983) argues that corporate philanthropy is an instrument to 'eliminate' uncertainty in the market the company is concerned with.

⁵ The Center for Strategic Philanthropy and Civil Society from the Sanford School at Duke University has compiled a rich dataset of spend-down foundations. <https://cspcs.sanford.duke.edu/time-limited-philanthropy/time-limited-foundations/>. Accessed: February 14, 202

Foundation, which recently announced it will close down in 2045, effectively shortening the spend-down timeframe it had set earlier.

The other main funding strategy are the Donor-Advised Funds (DAFs). A Donor-Advised Fund is a “giving vehicle that enables donors to support charitable organizations and causes” (National Philanthropic Trust, 2024). In the U.S., DAFs have their origin in community foundations and their funding practices, going back to the early decades of the 20th century. These practices were streamlined with the passage of the 1969 Tax Reform Act, and have further consolidated over time, particularly with the Pension Protection Act from 2006 (Berman, 2015).

DAFs have become a significant funding tool ever since. In 2017, DAFs’ commercial sponsors surpassed operating charities as the main recipients of charitable donations (Brakman Reiser, 2023). In 2023, their total assets stood at USD 251 billion (National Philanthropic Trust, 2024). Preference for DAFs seems to be particularly high among family foundations (Foundation Center, 2009). DAFs are characterised by lower administrative costs and more generous regulations than private foundations, including greater flexibility and privacy, and less stringent disclosure requirements, all while performing almost the same functions as a foundation. But they have also spurred a wave of criticism because of these very reasons; scholars are wary of the major regulatory concessions granted to these philanthropic instruments (Berman, 2015; Brakman Reiser, 2023), and the incentives and agency problems involved in the commercial transactions surrounding DAFs (Galle, 2021).

If DAFs and the option to set up a spend-down foundation (or implement a spend-down strategy) have been part of the philanthropic repertoire for a long time, why are these instruments gaining momentum now? The rationale put forward by foundations and practitioners in the field points to some reasons that help explain the mounting interest in these options. Their narrative accounts emphasise a sense of systemic crisis and the generational handover in foundation leadership.

3.1. *Crisis and Uncertainty*

It is often stated that crises are opportunities for change. The experience of foundations resonates with this principle. The 2007-2008 financial crisis took a toll on many of the relatively small foundations created in the 80s (Foundation Center, 2009). After seeing their endowments shrink as a result of the crisis, foundations likely assessed differently the costs and benefits of their operations. At that point, DAFs became an appealing route for donors to maintain an engagement in philanthropy, as these instruments enjoy more favourable terms and greater regulatory leniency.

The spend-down option has also gained salience among donors, given the critical political and economic environment. Donors have a heightened sense of crisis and uncertainty in the current conditions worldwide, and they have pointed out that the decision to spend down is generally influenced by the larger social context (Honig *et al.*, 2021; Hengevoss and von Schnurbein, 2025). Predictably, the Covid-19 pandemic has been reported as a significant factor that has driven some foundations to adopt or accelerate their spend-down timeframes

(Honig *et al.*, 2021). For donors working with a view to international affairs, the Sustainable Development Goals (SDGs) have triggered new approaches to funding, including the option to spend-down. Others see spend-down as a way to help the domestic economy regain competitive capabilities and potential for autonomous prosperity, for instance, by supporting a low-carbon economic transition (see Ivey and Lourie [2022], for an example of this perspective in the Canadian context).

Amid the crisis, foundation leaders report to undergo a 'change in view', a shift in attitudes and preferences away from perpetuity as they perceive a series of unmet and evolving needs in society, and have a desire to have greater, more immediate impact. Practitioners' reports indicate that the reason for spending down is 'a shift in the founder(s)' attitude toward limited lifespan versus perpetuity' (Foundation Center, 2009, p. 2); a 'disdain for perpetuity' (Behrens and Gordillo, 2019, p. 1). Perhaps this attitudinal shift is intertwined with the generational handover in foundation leadership and a series of managerial conflicts that come with it.

3.2. *Generational Handover and Conflict*

One of the routes to de-bias democracy is the generational renewal that gives way to new political forces and facilitates change (Albertus and Menaldo, 2018). In the case of foundations, generational change and the renewal of organisational leadership have been associated to a greater inclination to spend-down, especially in the case of family foundations (Foundation Center, 2009; Mansson, 2020). Incoming cohorts of leaders are likely to develop a different vision of the foundation's role, and may decide to adopt a spend-down strategy.

Yet, this generational handover also tends to expose a good deal of conflicting views among family members about the traditional organisational forms and practices of philanthropy (Foundation Center, 2009; Mansson, 2020). Mansson (2020), based on a report by the National Center for Family Philanthropy, dissects multiple facets that the generational conflict in foundation leadership can display:

- "Older and younger generations are interested in different issues.
- Generations have different opinions about how to achieve results and impact with grantmaking.
- The younger generation has often moved away from the primary location of the foundation's place-based focus.
- There are conflicting political, social, and religious views among generations.
- Generations have different opinions on how transparent the foundation should be about its grantmaking decisions." (Mansson, 2020, p. 90).

All these aspects become evident in diverging approaches to management and decision-making, as the implementation of a DAF or a spend-down strategy will require multiple decision nodes that will shape the long-term legacy the foundation wants to leave (Hengevoss and von Schnurbein, 2025). Amid crisis, new generations may be undecided as to whether and how to maintain their involvement in philanthropy. This leaves donors at a crossroads, with

several possible ways in front of them to implement a strategy. They will look around to observe and weigh the strategies that others are deploying, and will make a choice depending on their assessment of other elite and non-elite groups.

4. The Strategies of the Weakened Elites – Four Propositions

Elites obtain the resources for philanthropy from their economic activities. Economic crises hit investments and businesses, reducing the resources for philanthropy and exposing the threat of social unrest. Elites want to remain involved in philanthropy in order to counter such threat. Yet, philanthropy involves different combinations of material resources, legitimacy and social networks, and this will be on display as elites implement their strategies in a variety of contexts. Unlike the setting proposed by Ansell and Samuels (2014, p. 98) in the “Joint Democracy Game”, where there is an initial divide between incumbent and outsider elites, with the latter trying to fight the threat to their property rights that the incumbents pose, here the divide is caused by the crisis itself. The crisis changes the relative position of a number of established elites, and those who end up in the most diminished positions will attempt to recover their standing.

We can now look into the split among elites that arises in the aftermath of an economic crisis, and examine the potential philanthropy strategies that can be adopted by the elites that have been left in a weaker position (which will be called here the *weakened* or *downcast* elites). The crisis deepens differentiation and competition among elites. Some of them will come out as relative ‘winners’, while others will leave as ‘losers’.⁶ The winning elites can afford to ‘dig in their heels’ and continue with the same strategy they had before the crisis. This essentially amounts to keep their foundations operating in perpetuity, benefiting from the market dynamics that have worked out for them. This is possible precisely because they remain in control of significant parts of the economic structure, supported by sustained strategies of industrial consolidation. In a way, this means that any technological transition gets coopted to serve the interests of these elites.

It is the weakened elites who need to reconsider their philanthropy strategies. Their diminished financial position means that any administrative costs of philanthropy will now be relatively higher for them to bear. Spending down presents itself as a suitable option. Through spend-down, they will phase out the foundation; at the same time, they will make a greater effort at retaining their legitimacy as potential partners in the philanthropy space and strengthening their networks. In this scenario, downcast elites consider that this was not just an individual crisis, but a rather systemic one. Thus, they will scan the environment for potential allies and external organisational resources, and prompt a bandwagon effect among their peers. In other words, they become more oriented to form coalitions and explore options that will help them to remain waiting in the wings, for the next chance to increase their resources and influence again. These downcast elites realise that crises will be ever more likely

⁶ This can happen either because of purely private decisions and market outcomes, or because some elites, who are closer to the policymakers, are able to negotiate a bailout for themselves. This distinction can be the focus of a future extension to the present analysis.

to occur, and want to retain legitimacy so as to get support for any new strategy they may decide to adopt later. At the same time, their resources, while fewer than those of the winning elites, are likely invested in a more diversified way across industries, giving them several options to take advantage of new technological breakthroughs in the future.

But, alternatively, these elites may choose to double down on a winning-elite type of strategy. They think that they have been caught in a temporary situation that affected them individually, and not a systemic crisis. They believe that the economic fundamentals will rebound soon and will offer good investment prospects again. In this case, setting up a Donor-Advised Fund (DAF) is the preferred option. Other philanthropic tools are also available, but DAFs are unique in its close derivation from perpetual foundations. DAFs allow the elites to maintain the control of resources under even more generous legal and regulatory conditions than those applicable to endowed foundations. However, by virtue of the economic mechanisms at play, the likelihood of new economic crises and persistent instability that will affect DAFs keeps growing. DAFs are, just like endowed foundations, reliant on market investments. An economic structure pervaded by financialisation and overreaching monopolies and oligopolies puts those investments increasingly at risk. Thus, elites are subject again to the risk of losing resources and tainting their legitimacy. Until a solid institutional response is devised to counter this trend, the cyclical crises and the threat of social unrest are bound to persist. Then, this is a case of economic crises affecting elites differently, with some of them coming out of the crisis in a relatively winning position. They can continue business as usual; but for those on the losing side, the aftermath of the crisis drives them to re-evaluate their philanthropy engagement and the investments behind it.

What determines that they will choose a DAF or a spend-down strategy? The elite looks around to gauge the condition of the actors it intends to engage with: other elites and the non-elite groups. First, looking at other elites, it will try to determine whether the crisis was individual or systemic. If they think that the crisis was individual, they will choose to move their investments to a Donor-Advised Fund, counting on a good performance of the economy as a whole, that will reassure their expectations of good profits. If they think that the crisis was systemic, and that other elites were also affected in major ways, they will choose to spend down. In turn, the general situation of the non-elite groups will influence the implementation of the strategy. If those groups are perceived as weak, disorganized, or lacking a specific agenda, the elite can deploy its strategy reaping the bulk of the benefits for itself. On the other hand, if the non-elites are perceived as strong, articulate and well-organized, the elite has to compromise more and engage in less biased coalitions.

Based on these elements, the following propositions delineate the conditions that lead a weakened elite to choose a given philanthropy strategy:

Proposition 1: The perception by the elite that the crisis was an individual crisis, combined with weak non-elites, leads to the adoption of a long-term DAF strategy.

Proposition 2: The perception that the crisis was an individual crisis, combined with strong non-elites, leads to the adoption of a short-term DAF strategy.

Proposition 3: The perception that the crisis was a systemic crisis, combined with weak non-elites, leads to the adoption of a high-cooptation, low-compromise spend-down strategy.

Proposition 4: The perception that the crisis was a systemic crisis, combined with strong non-elites, leads to the adoption of a low-cooptation, high-compromise spend-down strategy.

As can be inferred from the preceding analysis and these propositions, the spend-down strategy is the most congruent with the technological transitions and sectoral realignments needed to return to a sustainable economic and social path; thus, it is the most likely to contribute to a gradual de-biasing of democracy. However, the actual outcome of the spend-down will depend on how it is implemented and the way in which emerging issues in the economic structure and social organising dynamics are addressed. Specifically, it will depend on how the shift in investments and the technological transitions associated to it play out. It is in the details of these transitions that we will be able to observe how democracy will get stronger or not.

As noted above, unlike the original treatment (Ansell and Samuels, 2014; p. 98), here the divide among elites is caused by the crisis itself. The weakened elites will attempt to recover their position and influence. In order to achieve this goal, they may be inclined to undertake investments in new areas and form new coalitions. Additionally, we need to zoom in on the concept of “masses” present in the Joint Democracy Game, to uncover a myriad of interest groups that pull in different directions. Elites will attempt to build coalitions with some of those groups, leading to a variety of partial outcomes with differential impacts on democratization and economic prosperity and sustainability.

Yet, due to the fragile position in which many of the elites find themselves, achieving a critical mass of like-minded donors proves crucial for the success of the spend-down strategy on a macro-level. The systemic nature of the crisis demands a major change in the economic structure and a pool of resources to act on different fronts.

4.1. Building up a Critical Mass - The Bandwagon Effect

When weakened elites understand that they are in the middle of a systemic crisis, they know they have to compromise in order to survive. They need to cede control over philanthropic resources, in exchange for preserving the legitimacy of their position. This will be beneficial when they try to regain favourable terms in the future. Precisely because of their compromised position, they need to join forces with like-minded philanthropists who are in a similar situation. Thus, they will be able to build up a critical mass of peers in order to adopt a coordinated strategy and increase their chances of coming out of the transition successfully. Such strategy must deal not only with philanthropy and a tangible threshold of resource transfer. It has to deal, more essentially, with a major shift in the economic structure and the technological change necessary to make the economy more sustainable.

The recent experience of spend-down foundations indicates that this trend has been propelled by a sort of bandwagon effect. Leading spend-down philanthropists make announcements about their plans, and are straightforward about their goals to ‘inspire’, ‘cultivate’ or ‘influence’ their peers (Markham and Ditkoff, 2013; Honig *et al.*, 2021). This has prompted a wider discussion that has convened other foundations, raising visibility around spend-down. Clearly, the networking element is fundamental to the success of this strategy.

Associated to the leadership and networking aspects, shaping the narrative is another key component of the spend-down strategy and its emphasis on retaining elites' legitimacy. Spend-down foundations highlight the notion of 'giving back', 'returning resources back to the communities their wealth came from, shifting the focus from the individual entirely to the community.' (Honig *et al.*, 2021, p. 6). According to one of the foundations surveyed, one of the aspects of the messaging around spend-down is the ability to 'tell a complete story' about the foundation and its social value. Operating in perpetuity, telling people that there is always tomorrow, keeping the 'promise' always latent, unrealised, does not give the same chance. Spending down helps make it 'visible on the horizon, versus being so far in the future that it feels indeterminate.' (Honig *et al.*, 2021, p. 6).

5. The Sustainability of Philanthropy and the Economy

On a higher level, what does the elite-biased democracy framework mean for the legal arrangements governing philanthropy? Albertus and Menaldo (2018) have studied the various ways in which the legal system is heavily influenced by the elites and is shaped to protect their interests; most notably, through constitutional reform, legal immunities for former elites, campaign finance laws, and a ban of minority parties (Albertus and Menaldo, 2018). In such a setting, it is not hard to get a sense that the legal arrangements that govern philanthropy share the same spirit.

Part of the task of de-biasing democracy entails redesigning the legal arrangements that support philanthropy, and reforming the nexus between market outcomes and philanthropy with the goal of creating a sustainable economy. Multiple voices have called for legal and regulatory changes to philanthropy, on different fronts, but desirable reforms are still on hold (see Deep and Frumkin [2006] for a discussion of potential reforms to the 5% foundation payout rule; Reiser and Dean [2023] examines the case for the reform of Donor-Advised Funds and philanthropy LLCs). Pistor (2019) has studied in numerous historical contexts the influence of the legal system on the dynamics of wealth accumulation. She has critiqued the way the legal system is tilted towards the interests of the wealthy, and how elites have continually been able to create new legal rights to favor and reinforce their position. Some of her ideas to rebalance the legal system to serve society more widely could be applied to develop a new institutional framework for philanthropy. This could include wider arrangements that support and complement spend-down foundations and other funding and organisational structures.

Still, as sustainability becomes a matter of increasing concern, not just in the philanthropy domain but more widely in the economy, different approaches to this idea and to the legal arrangements needed to support it are already the source of new conflicting views. On one hand, spend-down foundations have pledged to help nonprofits become sustainable by connecting them to larger philanthropy networks and long-term funders, supporting the continuation of existing funding models, building fundraising capacity, and making nonprofits more 'deserving' of funding by installing specific metrics-oriented programs (Behrens and Gordillo, 2019; Honig *et al.*, 2021).

On the other hand, nonprofit groups with a different stance have advanced proposals to modify the philanthropy and nonprofit ecosystem. This perspective calls for a re-examination of the economic dynamics on which philanthropy rests (Henderson and Ebrahimi, 2024). The proponents of this alternative envision a world in which the resources obtained from spend-down foundations and similar sources go to create new productive hubs and support a new economy. This view would be accompanied by new philanthropic practices where investment and grantmaking are more closely connected than has conventionally been the case with perpetual foundations and other giving vehicles driven by established investment insiders (O'Donnell and Chen, 2023; Henderson and Ebrahimi, 2024).

Nonprofits could certainly benefit from a rewriting of the legal rules and established norms that have for so long shaped the funding and operations of the philanthropy realm. A renovated legal framework should open the door to a broader set of ownership and management structures, leading to more sustainable connections between the market and philanthropy arenas. An analysis of the strategic interactions toward the change of legal arrangements of philanthropy or the structuring of new types of contracts between funders and nonprofits, along with their implications for policy-oriented coalitions, is a rich area for exploration.

6. Conclusion

This paper has presented a theoretical integration of philanthropy within the analytical framework of elite-biased democracy. The focus has been, in particular, on philanthropy that originates in investment and wealth accumulation. Extending the original elite-biased democracy framework, this paper has introduced concrete settings and economic dynamics under which philanthropy reveals itself as an expression of the split and competition among elites. A crisis scenario is instrumental to understand how philanthropy involves multiple alternative strategies from which elites can choose. Using a mix of material and nonmaterial resources (legitimacy, reputation, networks), elites who come out of the crisis in a relatively weak position can nonetheless redesign their philanthropy strategy to engage in coalitions with non-elite groups. Such coalitions provide opportunities for a progressive, gradual de-bias of democracy.

The paper has offered four propositions to understand the main factors that determine which strategy will be adopted by a weakened elite. Those strategies can be assimilated to a range of possibilities to undertake technological transitions that may shift the sectoral and industrial balance in the economy. Thus, the technological transitions clustered under the banner of the 'green transition', and their effects on philanthropy, can be understood using the elite-biased democracy framework, where investment-as-philanthropy plays a role in re-aligning elites and non-elites.

In the case of the spend-down strategy, the formation of a critical mass of aligned actors that will be decisive to see the outcomes of the strategy in full effect has also been considered. Thus, integrating philanthropy into the analysis of elite-biased democracy offers an opportunity to examine an array of potential coalition scenarios and their effects on economic outcomes, extra-market / philanthropic redistribution and political participation. A

more fine-grained analysis of specific scenarios is material for future research. The preceding analysis has implications for the funding of research centres and think tanks, as these organisations rely heavily on the profits earned by endowed foundations. Those earnings are allocated to research organisations, mostly in the form of grants, to finance their programs. An analysis of how a crisis might trigger a shift in strategy among elites when it comes to funding science and research is left as an exercise for future work.

One of the most consequential implications of the previous analysis is probably that related to the possibilities of a transformation of the legal arrangements that support philanthropy. Albertus and Menaldo (2018) examined outgoing elites in a waning political autocracy, and the exit bargain they achieved, which was mostly visible in the form of a new constitution. But how to deal with economic elites who, unlike elected politicians, do not have a timed mandate and can use other means to confront crisis and keep their stronghold in a more covert manner? Pistor (2019) gives a hint when she mentions that many of the legal precedents and regulations applicable to wealth accumulation are designed and agreed on among private actors first, then taken to the public sphere and converted into State-enforced law. Arguably, this has been the case with the boom of new philanthropic instruments (such as those presented by Salamon, 2014) and the regulations around them. They represent an expansion of investment criteria and standards into philanthropy, which deepens the legal edge in favor of established investors. More work needs to be done to fully understand the implications of this trend on nonprofits and design new legal arrangements that take advantage of investment instruments in a more inclusive and transparent way.

Relatedly, just as the generational handover can help turn the tide among foundations, this demographic trend could also become pivotal in the legal transformation of philanthropy. However, an updating of beliefs among younger cohorts of donors is necessary to make them more inclined to embrace legal reforms. The generational renewal by itself is no guarantee that philanthropy will take on a greater democracy-friendly orientation or that more inclusive practices will be adopted. New generations might as well stick to the same values that previous generations upheld, reproducing beliefs that make them uninterested or opposed to the demands of certain social groups. This may open the door to protracted reactionary scenarios. In this respect, the direction and effectiveness of generational change across a range of organisational philanthropic actors (and its implications for democracy) is another question for future research. Spend-down strategies are considered by many nonprofits as an opportunity to initiate alternative mechanisms that reset their funding and sustainability path. How they will be embedded in the economy as a whole and the way in which the legal system support them will illustrate the bonds that can be forged in the long term between philanthropy and democracy.

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