"Generosity Drives the American Economy"

— CLAIRE GAUDIANI

ABOUT THE AUTHOR

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Propositions

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Our philanthropic institutions grow out of values that are rooted in the ideals of our Founders. These ideals continue to generate new ideas and inspire our history as an "improving people." The best way to love and improve our nation is to strengthen our commitment as individuals to the well-being of all our fellow citizens.

Americans are the most generous people on earth. Eighty-nine percent of Americans make a charitable donation each year. Generosity is our most widely held value, shared by the well-to-do and the not-so-well-to-do. It is shared across races and ethnic origins. Our solidarity as donors comes from this sense of responsibility to our fellow Americans and to our nation.

Generous Americans give to causes that compel our attention regardless of our personal connections. Of course, we give to support causes that we are personally connected to: our religious communities, our schools, and to help people who share the same problems or diseases that we have confronted. But we also give to create opportunities for others to whom we have no direct connection.

In most modern nations, citizens expect government to attend to the needs of the citizenry. Taxes flow to the government and are redistributed to the people through a centralized, and ideally, rational bureaucracy. In the American model, support of good causes is decentralized, unmanaged, and pluralistic - values that define our philanthropic tradition.

American generosity is a source of pride in our history and our ancestors, yet few know how it began. Our tradition of citizen-to-citizen generosity, what I call "generosity unbound," comes from a long-standing connection between personal wealth and the common good. To see how these connections were built, it helps to look to an individual who put his values into action.

George Peabody (1795-1869) was a legendary wealth builder who established the country's earliest philanthropic institution and set a standard that inspired future generations. George grew up in a Massachusetts household of eleven children with a strong Puritan grounding. His father made a meager living by subsistence farming and working in casual leather. In order to help support his family, George left school early to work as a laborer, run a general store in his hometown, and later moved south to open a general store in Washington, D.C with his uncle. When his military service in the War of 1812 ended, he joined a partnership with Elisha Riggs in Georgetown. He spent years traveling in the United States and England buying and selling dry goods.

In 1843, Peabody moved to London and opened a financial firm. He sold American bonds in Europe to help finance capital-intensive projects like the first transatlantic cable and the canals and railroads that enabled our country's westward

expansion. His London business partner was Junius S. Morgan, and Peabody helped train Junius's son, J. P., in international banking. The younger Morgan began his career as a New York representative of George Peabody & Co.

Peabody recognized how investments made progress possible, and he was deeply committed to the betterment of all mankind. He understood that this commitment was best achieved by investing in educational opportunities that were not available to him growing up. The Peabody institutes and museums were his effort to make self-improvement available to all people. He also invested in scientific research in fields like archaeology and anthropology and in England he invested in housing for the urban working poor.

> "Foundations are private property held for public benefit according to donor intent"

In 1852, Peabody sent a letter from England to be read at the celebration of the hundredth anniversary of the founding of Danvers, Massachusetts. In part it said: "In acknowledgement of the payment of that debt by the generation which preceded me in my native town of Danvers, and to aid in its prompt future discharge, I give to the inhabitants of that town the sum of TWENTY THOUSAND DOLLARS, for the promotion of knowledge and morality among them."

Peabody believed that an educated citizenry transcended political partisanship. The year 1857 included a financial panic and the rumblings of civil war, but Peabody kept his colleagues committed to the Institute even when they found themselves in financial uncertainty and on opposite sides of the slavery issue.

Peabody invested in additional institutes at Harvard and Yale, and in Baltimore and Danvers, but his largest philanthropic institution was the Peabody Fund for Southern Education, which he established at the end of the Civil War. Scarcely two years after Appomattox, and for the first time since the end of the Civil War, former governors from northern and southern states stood together at the ceremony deeding George Peabody's multimillion-dollar gift. Peabody stood with General Ulysses Grant and a local bishop as the deed of the gift was read. It was praised as "the first guarantee of a reunited Country and of perpetual Union."

No one could have anticipated the power of this precedent-setting gift. It educated thousands, and it inspired other philanthropists. It set expectations for good governance that still hold today. John Slater, a Connecticut textile magnate, donated $1 million to advance the "uplifting of the lately emancipated population of the Southern States" in 1882. Anna T. Jeanes, a Philadelphia Quaker, deeded $1

million to the education of southern African American children in 1905. Modeled after the great work of Virginia Cabell Randolph, a black teacher in the Richmond area, Jeanes Fund teachers visited students in their homes and helped improve health and sanitation as well as advancing education.

Peabody's work brought him in contact with many entrepreneurs and his arguments in favor of education as a national solidifying force after the Civil War had an influence on them as well. Cornelius Vanderbilt was convinced to endow Vanderbilt University in Nashville. Paul Tulane was inspired to found Tulane University in New Orleans and Anthony Drexel to found Drexel University in Philadelphia. Johns Hopkins was persuaded to endow the nation's first graduate university in Baltimore.

In 1868, Danvers, Massachusetts was renamed for Peabody. When George visited from London, he was proud to discover a thriving community that was spending five times more on public elementary education than had been spent when he was a boy.

George Peabody defines the values that have become emblematic of Americans who create foundations. While he believed in hard work and the building of personal wealth, he saw himself as a trustee of this wealth. He sought a public impact from his prosperity, rather than a purely private benefit and invested in others so that the future would be better for everyone. He supported his own community and the parts of the nation that were in greatest need of new assets in order to flourish.

Thanks to virtuous entrepreneurs like Peabody, wealth and philanthropy became more closely associated in the U.S. than they are in any other nation. The investment model of philanthropy gives people a stake in the futures of others. It injects pride across generations, races, ethnicities, and skill sets. And it is still the shaping feature of American culture in the twenty-first century.

But will this investment philanthropy continue in America? The best way to answer this question is to consider the relationship of investment philanthropy to our economy and our democracy.

The Virtuous Cycle

The relationship of investment philanthropy to our economy and our democracy is what I call the "virtuous cycle," the engine that philanthropy has created at the core of American society.

The cycle begins when philanthropists make unregulated investments that create opportunity such as educational scholarships and research grants. These opportunities optimize our own chances of enjoying prosperity. Thus, the second step in the cycle: Opportunity builds prosperity.

Prosperity is something we know quite a bit about in America. For all our shortcomings, we have achieved a remarkable level of economic and social prosperity in the brief period of our history. We enjoy some of the highest living standards in the world, we have achieved high levels of education for a large percentage of our population, and we continue to make progress on the economic front. And despite some of the highest levels of income disparity in the past one hundred years, the bottom quintile of wage earners has seen an 80 percent increase in real wages in the past fifteen years.

Prosperity, of course, is about a state of mind as much as it is about dollars and cents. Americans are optimistic, and even the less well-off have preserved their enthusiasm for the American Dream. Our nation continues to create more new businesses than any other and we have managed again and again to invent entire new industries at a remarkable pace: pharmaceuticals, biotechnology, wireless communication, Internet commerce.

The third step in the cycle: Prosperity produces gratitude. Each new generation of philanthropists, following in the steps of Peabody, Sage, Carnegie, and Rockefeller, acknowledges a desire to give back to the nation that has enabled them to amass their significant fortunes. It's not just the wealthy white men with their names on concert halls, museums, and universities. Remember, nearly nine out of ten Americans make charitable contributions each year. In fact, on a percentage-of-income basis, the lower 40 percent of wage earners are more generous than are the upper levels of wage earners.

This sense of personal responsibility in a free society is a vital asset to our nation. It keeps us focused on the needs of others as well as our own. Because we are grateful beneficiaries of the generosity of our fellow citizens, we ensure our role in sustaining the virtuous cycle. Even if you never received a scholarship or sought help at a free medical clinic, we are still recipients of philanthropy from our fellow citizens. Therefore, we owe back!

How Philanthropy Strengthens Our Economy and Our Democracy

American-style philanthropy creates a balance between capitalism and democracy. It strengthens both as it feeds optimism and innovation. It enables everyone to see the importance of fairness. It reminds us of the Founders' expectation that we each take personal responsibility for "life, liberty, and the pursuit of happiness" for our fellow citizens.

Capitalism is wealth producing and wealth concentrating. A market economy fosters tough competition and potentially winner-take-all outcomes. It encourages optimization of individual assets. It is demanding, impatient, imaginative, and entrepreneurial. It thrives on freedom and light bureaucracy. It is risk tolerant, but also self-focused.

Capitalism is an excellent teacher for those committed to building our civil society. We have a robust tradition of social entrepreneurship that is heavily indebted to the best features of capitalism: a clear vision, disciplined strategy, capital raising, and scalability, plus those essential intangibles—optimism and determination.

But democracy cannot thrive when income distributions reach very high levels of inequality. Therefore, free market capitalism needs a wise governor on its engine and philanthropy provides such a mechanism. It prevents capitalism from "overheating" and burning itself up. At the beginning of the industrial revolution, Karl Marx theorized that capitalists could eventually own all the means of production. He did not, however, imagine the combination of virtue and enterprise found in men such as Peabody. They applied the control mechanism of philanthropy to their engine of wealth-building which has made our capital market system work as well as it has because it emphasizes fair play and self-discipline, and engages wealth in addressing unfairness. (When our market system has failed us, it has usually been because greed wrestled generosity out of its way.)

Citizen-to-citizen generosity is the vital link between civic humanism and economic development. Philanthropy depends on the donor's economic success, no matter how modest, and on that donor's recognition of "self-interest, rightly understood."

The recession and financial instabilities since late 2007 have left millions without jobs, home ownership, or access to higher education and health care. Many Americans fear they will never be able to join the increasingly fragile middle class. Endowments have lost between a quarter and a third of their value.

In these troubled times, we need "generosity unbound." Its openness to innovation and entrepreneurship can launch successful strategies to renew and expand the

American middle class. As our economy recovers, American philanthropy will remain a crucial driver of the economy.

Today's Threat to American Generosity

Despite its long history, American philanthropy is still a fragile institution, and that institution is currently under threat. New proposals being developed by advocacy organizations would seriously weaken this system, substituting state or federal government regulation for the freedom of donors to give as they choose. This would be a terrible mistake.

Two such groups, the Greenlining Institute and the National Committee for Responsive Philanthropy (NCRP), are critical of today's private foundations, charging that foundations do not adequately meet the needs of the poor and marginalized. Accordingly, NCRP advocates that private foundations devote 50 percent of their annual spending to organizations working to benefit marginalized groups.

Yet under their plan some of the greatest losers would end up being these very groups. For instance, these populations have a disproportionately high risk for diabetes, late-identified cancers, and infant and maternal mortality. They are more likely to seek need-based scholarships for higher education. But funding medical research and higher education, unless narrowly focused on marginalized groups, would not satisfy the NCRP agenda.

It is also understandably tempting to impose new taxes on endowments as a way of balancing depleted public budgets. But what a short-sighted idea! Private foundations are . . . private entities. And foundation endowments are private property held for the public benefit according to the donor's intent. Tax deductions for charitable donations were wisely established to provide an incentive to sustain citizen-to-citizen generosity. Deductible contributions do not, however, make foundation endowments any more "public" than are the homes of citizens who deduct their mortgage-interest payments from their taxes.

The approaches promoted by Greenlining and NCRP would likely inspire foundations to give less, close down, or to move offshore. Few citizens will thank legislators for reducing the number of foundations in their communities. In addition, if newly wealthy citizens see these punitive acts toward foundations, they are likely to step back from acts of voluntary generosity, including the creation of their own foundations.

So I hope that in the coming months our elected representatives will balance the many competing interests in the legislative process and act wisely to protect the future of our American philanthropic tradition. ☐