

Fondazione Cariplo Forum on Philanthropy
Milan, Italy
October 19, 2006

My Brother's Keeper
By Daniel Rose

All modern societies should provide effectively for public well-being; and as our systems converge, we must learn from each other how best to respond to our common problems.

All societies provide in some way for their destitute and distressed, provide vehicles for health and education, and support culture and the arts;
but nations pursue these goals differently depending on their customs, traditions and beliefs.

Government, the marketplace and private philanthropy each plays a part; determining the appropriate role for each deserves thought and examination. The strength of government lies in its ability to enforce its dictates; the strength of private philanthropy lies in the diversity and creativity it encourages; the strength of the marketplace is that it reflects not what the public "should" want but what it is willing to pay for.

A visitor from Mars or Venus in 2006 might think that Americans ask too little from their government, that Europeans ask too much, that each could do better in utilizing the marketplace for the common good, and that private philanthropy is an under-utilized tool for filling the gaps left by the other two.

In nations with a history of strong central government, a dominant

church and a hierarchical society with an energetic aristocracy, government traditionally assumes responsibility for the public good, its costs underwritten by taxation.

Established custom has permitted Europeans to believe that payment of taxes absolves them of further responsibility to their fellows, and that the government is their “brother’s keeper”; but, as the recent growth of European philanthropic activity demonstrates, that is now changing.

Reliance on government persists, of course. Today, in France, for example, it is taken for granted that most of the Louvre’s expenses are paid for by the government, as are pre-school services and primary education. In Italy, the staffs of La Scala and La Fenice are virtually employees of the government.

But a younger “frontier society” like the United States reflects different traditions and social assumptions. Our virgin continent, settled by 17th and 18th century Europeans with no strong central government, with no state religion and no established aristocracy, called for different responses.

If American pioneers wanted a church or a school, they had to build it; if they wanted hospitals or roads or courthouses, they had to construct them.

Since raising the rafters of a barn could not be done by a farmer alone, he had to call on his neighbors for help; and he, in turn, helped them. The festive party he gave for his neighbors on the barn’s completion lives on in the phrase “raising the roof.”

This pattern of voluntary association of private individuals for mutual help continued; by 1831, Alexis de Tocqueville wrote,

“Whenever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association [of private individuals”].

America’s tradition of involved individuals and limited government persists; today, no one is surprised to find that, for example, private sources provide 87% of the budget of the Art Institute of Chicago and 96% of the Cleveland Orchestra budget, or that private individuals like me are still battling to persuade our federal government to underwrite the cost of universal pre-school education.

The three sources of social support—government, the marketplace and private philanthropy—bear close examination.

First, Government:

Traditional American wariness of government is reflected in our widespread popular preference for decentralized power over centralized, private over government support; and when government support is indicated, indirect subsidies over direct.

Indirect support for housing, for example, is given through tax exemption for home mortgage interest payments; indirect support for religion is given through tax exemption for religious institutions; and indirect support for the arts is given through tax exemption for cultural institutions.

Indirect subsidies permit government support without moral or aesthetic judgments, which Americans do not like their government

to make for them; and these subsidies have stimulated creativity and diversity.

Tax exemption for gifts of art to museums at current market values with no capital gains tax paid are attacked by some as “windfalls for the rich”; but most of us prefer to think instead of the Rembrandts, Giotto or Jackson Pollocks, now in American public collections.

This American system—of providing public goods through private philanthropy encouraged by tax exemption—works well for middle and upper income Americans, but works less well for poor and lower income groups.

Our research universities and art museums are among the world’s finest, but health care and child care for poor Americans are below European standards. That some 15% of Americans are without health insurance is a national disgrace, and it is not clear when this will be rectified.

Prospects for eventual federal government support for universal pre-school education are better, because recent studies demonstrate clearly that pre-schooling is an excellent public economic investment, yielding a high financial return as well as important social benefits.

If federal funding of pre-schooling does take place, it will be an interesting demonstration of the American preference for governmental aid to benefit society at large, rather than to provide compassionate help for those in need.

Europe today presents a different picture: here, active governments

take more and give more than their American counterpart, especially in matters of culture and of help for the poor. In a period of emerging economic stringency, will this model still be economically feasible?

Berlin's three separate opera houses, Dutch government warehouses filled with contemporary paintings that no one seems to want, and France's government-imposed 35-hour work week raise questions about what a nation's economic priorities should be.

When aging and retiring workers require more government expenditures paid for by taxes on a smaller and younger labor force, hard choices will be faced by many governments.

In the years ahead, more government involvement in health and education seems likely in America; and some governmental pullback in support for culture seems likely in Europe.

The second area of social support is The Marketplace:

In health, education, social welfare and culture, the roles of government and philanthropy vary. What is untouched by them is left to the marketplace, which allocates resources to provide what the public desires and can pay for. Subsidies may tilt the balance in one direction, taxation in the other, but the preference of the cash-paying consumer rules.

For example, European opera lovers note the large amount of Verdi and Puccini that New York's audiences demand; French filmgoers usually vote at the box office for taxed American films over government-subsidized French movies and for pornographic films

in spite of the punitive VAT taxes they carry. When French films try to please the public rather than the critics, they, too, do well at the box office.

In matters of health care, housing and education, America's middle and upper income groups are well-served by privately-supplied services they can afford to pay for. Our problem is that the poor are not well served.

“Private affluence and public squalor” is how John Kenneth Galbraith described American life in his 1958 book *The Affluent Society*, and although conditions are somewhat better today, our government has far to go to meet European standards for its poor. The American hope is always that the poor will in time enter the middle class, but conditions can be painful in the interim.

The third area of social support is Private Philanthropy:

Private philanthropy is perhaps the least understood and least appreciated leg of the “public support” triad, particularly in Europe. It meets needs that the marketplace and government leave unfilled.

The accepted American definition of philanthropy is “voluntary giving, voluntary service and voluntary association for the benefit of others.” Distinct from “charity,” which is help for the poor, philanthropy's goal is improving the “quality of life” as one sees fit.

Although the U.S. government spends our tax money as politicians or bureaucrats decide, it is through philanthropy that we give or do as we wish so long as it is seen as for “the public good.” Our

President may oppose stem cell research, for example, but some private universities pursue it anyway.

This year Americans will spend approximately \$300 billion (equal to about 10% of our federal budget and over 2% of our GDP) on causes ranging from saving whales to curing AIDS in Africa, from building university research laboratories to sponsoring productions at the Metropolitan Opera, from providing scholarships for disadvantaged minority students to preserving neglected historic landmarks.

The rich donate buildings or endow named professorships, the poor give to their churches, but the majority of Americans give, serve or solicit for some not-for-profit cause; and smaller gifts are frequently the most creative and effective. On death, it is customary for rich Americans to leave charitable bequests, and the names of Ford, Rockefeller, Carnegie, MacArthur and that reclusive American, Henry Wellcome (benefactor of the Wellcome Trust, England's largest foundation), among many others, live on through the foundations they created.

Our federal government permits the sums thus contributed to be deducted from taxable income. In recent years many other nations have started to permit tax deductible gifts to approved organizations (Sweden being a notable exception). Tax exemption procedures abroad, however, are often complex and discouraging, unlike American tax laws (and now British laws) which are designed to encourage giving.

Europeans claim, mistakenly but repeatedly, that "Americans give because of the tax advantage"; but American income taxes were first introduced in 1913, long after the American philanthropic pattern had been established. In Europe, the new Picasso Museum

went to France because of favorable tax arrangements, and similar arrangements could be explored by others.

We Americans are proud of our philanthropic sector. If all private philanthropy were abolished and that \$300 billion were added to federal revenues, few think that the quality of life in the U.S. would be improved.

The majority of Americans believe that governments are best at catching thieves, putting out fires and fighting wars, but that other activities are performed more effectively by non-profit or free market entities. The Jeffersonian notion of limited government—“that government is best which governs least”—is reinforced by the American belief that government is inefficient.

NGO's (non-governmental organizations) are seen as more creative and innovative than government, less tied to precedent, more responsive to public needs and wishes and, above all, as more competent and cost effective. “Saving as many lives as possible at the lowest per capita cost possible”—Bill Gates' goal—reflects philanthropic, not governmental, thinking. Philanthropy has its weaknesses, but they are widely seen as fewer than those of government.

At all income levels, Americans give voluntarily of their time, effort and money to a degree unheard of in Europe. For example, there are few U.S. elementary schools, public or private, without a Parent Association, through which parents raise funds to provide supplies or services to schools; but the formation of such groups is relatively recent in Europe.

One fundamental aspect of American philanthropy is donor recognition; although most Europeans decry this practice and find

it embarrassing, Americans cannot imagine philanthropy without it.

When the Reverend John Harvard died in Cambridge, Massachusetts in 1638, leaving to the local divinity school 800 pounds sterling and his library of 400 volumes, in gratitude the school renamed itself “Harvard College.

When, eighty years later, Elihu Yale donated goods sold for 560 pounds sterling to the Collegiate School of New Haven, Connecticut, the school was promptly renamed “Yale College,” even though Elihu Yale had not been in America since childhood and was never to return.

(On a personal note, this June, at our 55th college reunion in New Haven, my Yale Class of 1951 collectively donated to the Yale Alumni Fund \$64,764,127, with contributions coming from 90% of all living classmates. Yale is a private institution, but over 20% of the alumni of America’s state-supported universities contribute annually as well.)

Johns Hopkins of Maryland, when he died in 1873, left one million dollars to be divided among the members of his extended family, but he left an unprecedented seven million to found America’s first research university and teaching hospital. Hopkins would have understood—and loved—Warren Buffett’s comment, when asked, after he announced his \$37 billion gift to Bill Gates’ foundation, what provision he had made for his family.

Buffett’s answer thrilled the nation: “I have always wanted to give my children enough to do anything, but not enough to do nothing.” Americans identify with the “worker bees” of the hive, not with the drones.

Brown University, Duke, Cornell, Vanderbilt, Stanford and Rockefeller Universities are among the many other institutions named for their founders or major benefactors.

American museums list on their walls the names of major donors, and major tax-exempt organizations publish Annual Reports listing the names and gift levels of donors, even the most modest.

“Vulgar,” “ostentatious,” and “crude” are words sometimes applied to American fundraising techniques; but Americans, the most pragmatic people since the ancient Romans, reply, “Yes, but they work.” If Europe wishes to replicate American philanthropic success, it should consider finding ways to praise and encourage donors while embarrassing the rich whose names are absent from the lists.

Philanthropic peer pressure from friends, neighbors and business associates is non-stop; invitations to testimonial luncheons, dinner dances, theater parties, auctions and rock concerts assault us; a daily avalanche of charity mail fills our mailboxes. And, yes, “it works.”

Harvard University’s endowment is over \$26 billion, Yale’s is over \$16 billion and Princeton, Stanford and the University of Texas each boast over \$12 billion. Fifty-six American colleges have endowments of over a billion dollars; this year alone, 22 U.S. universities have each announced fundraising drives of over one billion dollars—Columbia, \$4 billion; the University of Virginia, \$3.3 billion; Yale, \$3 billion; New York University, \$2.5 billion; and even the municipally-financed City University of New York is seeking \$1.2 billion from private donors.

In the 21st century, when intellectual capital is more important for a

nation's international competitiveness than physical or financial capital, private philanthropy has an important role to play in higher education.

Our superb M.I.T.'s or Cal Techs not only educate and perform research; they also set high standards that public institutions strive to meet, and everyone benefits.

Cynics question the motives of donors, and those motives are indeed complex. Professional fundraisers cite many reasons for philanthropic giving:

- A) Common Sense and Enlightened Self-Interest—it helps the community, of which the donor is a member;
- B) Religious Imperative—God wills us to help others;
- C) Good Investment—society gets a good return on funds expended; the donor gets prestige and enhanced social standing.
- D) Fun—socialites organize dinner dances, theater parties, raffles, etc. and enjoy working with friends on such projects;
- E) Altruism—generosity, benevolence and selfless giving feel good and are spiritually rewarding;
- F) Repayment—school and college alumni, former hospital patients, etc. feel that they have benefited from the institutions and that they “owe” something in return;
- G) Family Tradition—inheritors of wealth and members of

prominent families feel loyalty to institutions.

The degree to which individuals define themselves and their values through their giving is sometimes overlooked by professionals. “I am what I give” is a more common belief than is generally realized.

The profound sense of mission of George Soros, a “one man Marshall Plan,” who has already given over 3 billion Euros to European philanthropies and has pledged to them his remaining 5 billion Euro fortune; the hardnosed practicality of Bill Gates, whose fortune is willed to his foundation and who demands a dollar’s worth of result for each dollar donated; and the imaginative involvement of Michael Bloomberg, New York City’s billionaire mayor, who on completion of his term in government will devote his imagination, his energy, and his \$6 billion dollar fortune to full-time philanthropic activities—such people are, of course, in a special class.

Others abroad are following suit. Indian billionaire Anil Agarwal recently announced his country’s largest ever donation of a billion Euros to found a university in his native province; and Li Ka-shing, Asia’s richest individual, has announced that he is bequeathing one-third of his 15 billion Euro fortune to his foundation. Richard Branson of Virgin Air; the founders of Google; and Ted Turner are among those announcing huge “pro bono” gifts.

They are the living embodiment of Andrew Carnegie’s dictum that creators of great fortunes should apply the same thought and attention to disposing of their riches as they did earning them.

But it must be remembered that it is not only the rich who give;

John D. Rockefeller tithe'd from his very first pay check; Michael Bloomberg's father, who never earned more than \$11,000 a year, discussed his charitable giving with his family at the dinner table; and most Americans contribute some time to pro bono activities.

Securing philanthropic contributions is an accepted career field now—involving part art and part science—and American fundraising professionals focus on the basic motivations I have described. Such professional fundraising is just beginning to appear in Europe.

To increase European voluntary giving, not only should tax laws be simplified, but traditional cultural patterns of public praise should be re-examined.

England bestows knighthoods on major philanthropists, France, the Legion of Honor, and America awards them Honorary Doctorates; but encouraging all citizens to feel proud of their contributions is an important step in increasing those gifts.

In Italy, for example, a good start would be to identify “la bella figura” with philanthropy and to convince the public that its contributions will be spent honestly and productively, with accountability for income and outgo equal to any other investment.

The introduction of a prestigious “Lorenzo Dei Medici Award,” to recognize outstanding philanthropy, presented by the President of the Republic at a major ceremony, could help change attitudes. Here in Milan, an award for private patronage of the arts could be named after Ludovico Sforza, the sponsor of Da Vinci's Last Supper.

In New York's “Little Italy,” the Feast of San Gennaro, a joyous 11-day street fair, annually attracts over a million attendees and raises large sums for parochial schools, activities for the elderly,

and other projects of the Archdiocese; such fundraising fairs could be replicated in the mother country.

For smaller fundraising events, Beppe Severigni suggests that they celebrate the family and Italian cuisine, and that they be conducted with great style!

Fundraising professionals know that those who donate to philanthropic causes, those who work actively with them and those who solicit funds from others, are “psyching themselves up”; and every effort is made to involve participants in these mutually-reinforcing activities.

In New York David Rockefeller, Brooke Astor and Arthur Ross are well-known examples. Another is Lewis Cullman, who has personally contributed some \$250 million to New York charities, is a tireless solicitor, an activist Board member and author of an excellent treatise, *How to Succeed in Fundraising by Really Trying*, which can be found on www.LewisCullman.com.

In Europe and America, large fortunes are increasingly in the hands of what Warren Buffett calls the Self Made Man, as opposed to the Inheritor; and the Self Made Man is more inclined to donate his money.

“There must be more to life than having everything” is their frequent discovery; and the satisfaction, the pride—and, yes, the prestige—of commendable philanthropic contributions are high on the list of goals of wise creators of new fortunes, who increasingly realize the destructive potential of huge sums left to their families.

Skillful encouragement of major gifts is a slow process that in the United States is usually conducted by professionals. First, they

establish a relationship with the prospective donor; next, they educate the donor about the organization and encourage identification and involvement with it; then, they encourage a modest gift whose effectiveness is demonstrable and for which appropriate appreciation is expressed.

Then, they help the donor conclude that his or her next major gift will achieve something the donor believes is important, and from which the donor will receive satisfaction and pride. Finally, the professionals help select the appropriate person to suggest (or ask for) that major gift.

When the gift has been pledged, the donor is acknowledged and celebrated, both to reward the donor and to encourage others.

Private philanthropy—(in addition to, not instead of, government expenditures)—has earned an important place in modern life, with material benefits to society and psychic benefits to donors.

To Conclude:

While government and marketplace mechanisms can be improved, private philanthropy, from donors large and small, is the area most open to expansion, especially in Europe. In some cases the American model may be useful; in others, new vehicles, such as the great new Italian banking foundations, may evolve. And we are likely to see in Europe more private institutions such as Milan's excellent Bocconi University or Rome's respected LUISS University.

The creation of large private fortunes—and the prospect of huge inter-generational wealth transfers—give Europeans today the opportunity to reintroduce into public discourse the concepts of

“noblesse oblige” (or perhaps “richesse oblige”) and “obedience to the unenforceable”. It has already started and it should be encouraged.

The medieval and Renaissance cathedrals that are the glory of Europe could well be matched in our day by secular cathedrals of education and culture financed by today’s private fortunes.

Then Europe’s rich would be able to answer the Biblical question, “Am I my brother’s keeper?” with the proud reply, “Yes, I am!”

Daniel Rose talks can be found on: www.danielrose.org