

## PHILANTHROPY VS. CHARITY AMERICA'S THIRD SECTOR

**I**nternational House in New York is an example of American philanthropy at its best. It provides an important service that the free market cannot provide as inexpensively and that government cannot or will not. And it provides that service competently and imaginatively for over 700 scholars from 100 countries who could not find it elsewhere.

The free market is efficient, Americans feel, but lacks a sense of public responsibility. Government is well-intentioned, they believe, but inefficient at best and inept at worst. The third sector—non-profit, voluntary, philanthropic, public interest, NGO's—aspires to market-like efficiency and pro-bono values.

Of all that foreign scholars will absorb during their time in America, an understanding of the potential of a third sector may be the most important. When governments are under pressure to cut all expenditures, the arguments for philanthropic entities (national and international) to underwrite cultural and educational activities are compelling. Today, the world's 300 richest individuals have a collective net worth of \$3.7 trillion. Why should they not be encouraged to support the arts and sciences—in addition to, not instead of—whatever government provides from tax revenues or the market does for profit.

The track record of America's third sector over the last century is awe-inspiring. Sponsorship of the post WWII Green Revolution's new varieties of wheat, corn and rice dramatically increased crop yields and prevented starvation for hundreds of millions in Asia, Africa and Latin America. Ending the scourge of yellow fever in the developing world and of hookworm in the American South were life-changing, as was the early and crucial sponsorship of Mohammad Yunus' Grameen Bank, the brilliantly successful and widely-replicated micro-financing project in Bangladesh. George Soros' role in encouraging democracy in post-Soviet Eastern Europe and Bill and Melinda Gates' role in Third World medical aid are becoming legendary, as are the impact of CARE, the International Rescue Committee and Save the Children.

Domestically, medical education in the U.S. was radically transformed and improved through the publication of the Carnegie Foundation-financed Flexner Report; and the U.S. Supreme Court's landmark desegregation decision in "Brown vs. Board of Education" was profoundly influenced by Gunnar Myrdal's *An American Dilemma*, instigated and financed by the Carnegie Corporation.

Americans are not surprised to learn that of the world's 20 highest-ranked universities, 18 are in the U.S., with most carrying the names of their founders or major donors like Leland Stanford, James B. Duke, Johns Hopkins, Ezra Cornell,

Moses Brown and others. And if you return home without having been to the Frick Museum, the Morgan Library, Carnegie Hall or the Guggenheim Museum, you really haven't seen New York.

From Rockefeller and Carnegie, Vanderbilt and Rosenwald, Ford and Mellon to Bill Gates and Warren Buffett, America's mega-rich, largely "self-made," have long made a practice of "giving back." Andrew Carnegie's 1889 classic, *The Gospel of Wealth*, voiced a widely-held sentiment when he spoke of great wealth as a public trust. His challenge—to expend the same imagination and insight in disbursing a fortune as in creating it—has profoundly influenced American thinking.

This year Americans will donate over \$325 billion to philanthropic causes. Over 80% comes from individuals, 12% from foundations, 5% from corporations. This is over 2% of our GDP, “off the scale” by international standards.

Private, non-profit schools and colleges educate one quarter of U.S. students and private, non-profit hospitals contain half of all U.S. hospital beds. Between one-third and one-half of Americans volunteer their time and effort to non-profit or community activities.

Alexis de Tocqueville noted this in 1835 in *Democracy in America* when he wrote, “. . . where in France you will find the government or in England some territorial magnate, in the United States you are sure to find an association.”

The reasons for our traditions are clear. Envision a virgin continent settled by Europeans with no strong central government, no hereditary monarchy or aristocracy and no state religion. If the pioneers wanted a church or a school, they had to build it. Roads, hospitals, courthouses? They had to build them.

Respect and social prestige flowed to the leaders and financial supporters of those activities, Elihu Yale and John Harvard among them. To this day, American museum galleries, endowed college professorships, hospitals and libraries bear the names of their donors.

Will this continue? Will the American third sector in the future be what it has been in the past? Most likely, yes; because the American public wants it that way. Outside the U.S., many believe that Americans give because contributions are tax-exempt. The reverse is true: philanthropic contributions are tax-exempt because Americans give. Every major American private university and most major museums were created before 1913, when the federal income tax was introduced.

The huge increase in private wealth we see today will lead to vast sums going either into charitable foundations or direct grants to favored colleges, museums, hospitals, etc. Current attacks on charitable foundations by militants on the political Right and Left are unlikely to result in major changes, although we may see more public scrutiny

and accountability, more admission of grant-making failures, more open discussion of measurable outcomes and what has worked and why (and, hopefully, less tax-exempt involvement in partisan politics).

The crucially important innovative and creative role of our third sector is often not recognized nor fully appreciated. It lies in the freedom and opportunity of third sector participants to “think outside the box”—to explore, experiment and innovate, to take risks which, if successful, help everyone but if unsuccessful are not at the public expense.

Our national 911 emergency response telephone system we owe to the imagination and persistence of the Robert Wood Johnson Foundation; the accident-preventing white lines (on our highways’ right side) we owe to the Dorr Foundation-financed experiments on the Hutchinson and Merritt Parkways. The 2,509 public libraries Andrew Carnegie helped to build, the 4,977 rural schools for poor blacks that Julius Rosenwald financed in the Jim Crow U.S. South—showed the way and others have followed.

A new generation of donors places high value on innovations that can be life-changing. New York’s Mike Bloomberg, for example, in his post-mayoral career, is devoting massive resources to helping cities worldwide solve urban problems.

Clearly, the world would be a better place if each of us contributed to the “common good”—at a time and in a manner best suited to our personal situation and to a cause or causes we feel important.

Life’s material rewards will always be unequally distributed and private fortunes amassed. de Tocqueville faced this clearly when he wrote, “what is most important for democracy is not that great fortunes should not exist, but that great fortunes should not remain in the same hands.” The hundred-plus American self-made billionaires who have signed the Bill Gates/Warren Buffett “Giving Pledge”—to give away over half of their net worth in their lifetime (for Gates and Buffett, it’s 95%)—are on the same wave length. Heirs to great fortunes, on the other hand, like the Walton family, often march to the

beat of a different drummer.

To which causes one should contribute is a subject open to discussion. The distinction between “charity” and “philanthropy” is expressed in the traditional observation that giving a starving man a fish (charity) feeds him for a day, while teaching him how to fish (philanthropy) feeds him permanently.

Whether your focus is on immediate, pragmatic help to those in distress—as many on the Left in America demand—or on research and experimentation in exploring “root causes” of long-term problems—which many foundations seek—Americans feel we should each do something!

The Duke of Wellington, who believed that the battle of Waterloo was won on the playing fields of Eton, might have attributed the magic of America’s third sector to the quintessentially American celebration of Thanksgiving, at which all Americans acknowledge their good fortune by sharing.

All societies make some provision by which the rich help the poor, and draw a distinction between the mandatory and the voluntary (in Islam, between “zakat” and “sadaqa”). Endowments, too, appear elsewhere (in Islam, the “waqf”). But the American third sector is unique.

In an increasingly globalized “flat world,” the case for “American exceptionalism” is weakening—our values of “fair play,” “rule of law” and “equality of opportunity” are becoming universal. Let us hope that the American concept of the third sector will become universal as well, and that all of us will help to spread it.

*International House  
January 26, 2014*