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PHILANTHROPY IN AMERICA: AN HISTORICAL AND STRATEGIC OVERVIEW

Char-i-ty: [Middle English *charite*, from Old French *charité*, from Late Latin *caritat-*, *caritas* Christian love, from Latin, *dearness*, from *carus* dear; akin to Old Irish *carae* friend, Sanskrit *kAma* love]. 13th century.

1: benevolent goodwill toward or love of humanity. 2 a: generosity and helpfulness especially toward the needy or suffering; also : aid given to those in need. b: an institution engaged in relief of the poor c : public provision for the relief of the needy. 3 a: a gift for public benevolent purposes, b: an institution (as a hospital) founded by such a gift.

Phi-lan-thro-py: [Late Latin *philanthropia*, from Greek *philanthrOpia*, from *philanthrOpos* loving people, from *phil-* + *anthrOpos* human being.]. Circa 1623

1: goodwill to fellowmen; especially : active effort to promote human welfare. 2 a: a philanthropic act or gift. b: an organization distributing or supported by philanthropic funds.

—Mirriam-Webster Online Dictionary¹

People have engaged in charitable activities throughout history, across many cultures and religions. Philanthropy in America grew from these roots, but developed in ways that were fundamentally different from historical practice. Philanthropy as an industry, consisting of professionally-managed private, secular organizations to understand and address the root causes of social problems, was developed in the United States.

This overview will briefly discuss important themes in American philanthropy from the early colonial days, then introduce several key figures in creating the philanthropic environment that exists in the United States today.²

¹ <http://www.m-w.com/cgi-bin/dictionary> (February 19, 2003)

² Native Americans and African Americans both had deeply rooted giving practices. These will not be discussed in this paper, which is intended to trace the history of modern philanthropic foundations. For more information, see Emmet D. Carson, "The Roles of Indigenous and Institutional Philanthropy in Advancing Social Justice," *Philanthropy and the Nonprofit Sector in a Changing America*, Clotfelter and Ehrlich, (eds.), (Indianapolis: Indiana University Press, 1999), pp. 248-274.

David Hoyt prepared this case under the supervision of Laura Arrillaga, Lecturer in Business Strategy as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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AMERICAN PHILANTHROPY FROM COLONIAL TIMES TO THE CIVIL WAR

The early settlers in North America were far from the strong government and well-established community structures that they were accustomed to in England. As a result, they had to join together for their mutual survival and development. They had to govern themselves, work together to build churches and schools, fight fires, and protect themselves. As more immigrants arrived, those that were already established helped them to adjust. This experience began the development of a tradition of individual effort, and the formation of voluntary associations, to work for the common good.

Throughout the 17th and early 18th centuries, religion was a driving force, both in the social structure at large, as well as in the concept and practice of charity and mutual assistance. Many believed that the disparity between rich and poor was part of a divine order, and not to be tampered with by man. The rich, however, had a duty of stewardship, requiring that they provide for the relief of the suffering of the poor. The public interest was held as a higher priority than private concerns.

While there was a general belief that the rich should help the poor, there were two basic approaches to providing this help. Some believed that the rich should distribute a portion of their wealth to the poor, to relieve suffering. However, there was a widespread fear of pauperism (in which the poor were regarded as maintained in poverty by charity, which discouraged them from helping themselves). This led some (in colonial times and later) to believe that giving material help to the poor was unwise, and that the poor were better served by the advice and good will of those who were better off. The latter generally considered themselves to be morally superior to those they were helping.

Cotton Mather (1663-1728), one of the most learned men of his time, the son of Puritans, a prolific author, and a man very involved in trying to improve the welfare of the overall society, believed that giving wisely was more important than giving generously. He expressed concern that charity might encourage idleness among the poor, and inhibit the ability of the poor to improve their lot. He said, "The poor that can't work are objects for your liberality. But the poor that *can* work and *won't*, the best liberality to them is to *make* them [work]... Find 'em work; set 'em to work; keep 'em to work. Then as much of your bounty to them as you please."³ The emphasis on wisdom in giving, and a fear of pauperism, is a theme that has continued to modern times.

Mather had a profound influence on perhaps the most well known philanthropist of the colonial period, Benjamin Franklin (1706-1790). From humble origins, Franklin used hard work, frugality and discipline to become financially independent. At age 42 he sold his printing business and devoted most of the rest of his life to public service.

Franklin introduced a secular orientation to good works, and emphasized efforts to improve the general welfare of the community. Like Mather, he believed that preventing poverty was more important than relieving it, writing: "I am for doing good to the poor, but I differ in opinion about the means. I think the best way of doing good to the poor is, not making them easy in

³ Mather quoted in Robert H. Bremner, *American Philanthropy* (Chicago: The University of Chicago Press, 1988) p. 14.

poverty, but leading or driving them out of it.”⁴ However, Franklin did not believe in simply encouraging the poor to improve their lot. He preferred to increase the opportunities by which the poor could improve their condition.

Franklin began his philanthropy in 1727 by founding a club for the mutual improvement of its members, then a library, a volunteer fire department, and plans for paving, cleaning, and lighting the streets of Philadelphia. He was also instrumental in uniting public and private support behind civic improvements, leading to the formation of the Pennsylvania Hospital in 1751 and the institution that later became the University of Pennsylvania. He also helped found the American Philosophical Society in 1743, the first American institution for promoting research in the natural and social sciences. More than any American before him, Franklin demonstrated the power of voluntary associations for improving social conditions.

In the period immediately before the Revolution,⁵ the colonies were poor, with few private fortunes. In many areas of social welfare, the difference between private and public responsibilities was not well delineated. Welfare was largely done through public-private partnerships. Government sometimes called on churches to take special collections for the poor, while some people bequeathed money to government specifically to support social welfare. Societies organized along occupational, religious, or other common lines to care for the poor or to help specific categories of beneficiaries.

In the first part of the 19th century, the United States was in its early development. In the fledgling democracy, commonly held values strongly inhibited the development of an aristocracy. Robert Bremner, in *American Philanthropy*, writes:

Democracy imposed or sought to impose, the same rules of conduct on the rich as on other members of society. ... In view of the popular prejudice against ostentatious enjoyment of riches, the luxury of doing good was almost the only extravagance the American rich of the first half of the nineteenth century could indulge in with good consciences. Even the bequeathing of large estates to one's children was frowned on. A fortune left to children is a misfortune, declared Horace Mann, since it takes away the stimulus to effort, the restraints from indulgence.⁶

In this environment, Americans tended to be suspicious of rich philanthropists, sometimes observing that the wealthy made their fortunes by operating factories under inhumane conditions, creating the misery that they then tried to relieve with their philanthropy. The wealthy more often believed that their riches were divinely bestowed, not something about which they should feel guilty.

During this period many charitable organizations were founded in the larger cities, and one important problem was coordinating the fundraising and services of competing agencies. In the 1830s coalitions of interdenominational religious societies were formed, totaling hundreds of

⁴ Franklin quoted in Bremner, p. 17.

⁵ The first shots were fired in the Revolutionary War at Lexington, Massachusetts in 1775.

⁶ Bremner, p. 41.

thousands of members, and raising several million dollars annually. These groups concentrated on religious causes and moral reform. In the years leading up to the Civil War, antislavery societies also thrived.

Earlier themes continued through the first half of the 19th century. Some charity reformers were obsessed with a concern for pauperizing the poor, so gave only advice, not financial help. These efforts did result in some long-term improvements, as they paved the way for savings banks and life insurance. Reformers were wary of unwise private charity, but even more critical of public relief of the poor, citing concerns about fraud and misuse of public funds. Reformers built poorhouses to institutionalize the poor, but these were badly built and maintained, and

became catchalls for victims of every variety of misery, misfortune, and misconduct. The old and the young, the vagrant and the abandoned, the feeble-minded, insane, and disabled, were all herded together in buildings that were poorly constructed, foully maintained, and wretchedly furnished.⁷

The Civil War sparked an increase in charity, and was important in providing supplies and building civilian morale in both the North and South. About 15,000 soldiers' aid societies were founded during the war.⁸ While these groups tried to relieve immediate needs, one organization demonstrated the power of taking a scientific approach to preventing suffering.

Perhaps the most important philanthropic innovation during the Civil War (1861-1865) was the U.S. Sanitary Commission, a privately funded and directed organization founded in June 1861. The Commission followed the lessons of a similar British organization in the Crimean War, working to improve conditions in military camps and hospitals in order to prevent suffering and death from disease. The Commission was a voluntary organization that did not have official authority, affecting change through on-site inspections, advice, and persuasion. Though not well received by the Army Medical Service, some high officials, or conservative religious groups (who condemned the Commission as "godless"), it was well respected by army field commanders and liberal religious groups.

The Commission gave thousands of civilians a sense of purpose. Sanitary Fairs were organized to support the Commission, raising large sums of money in 1863 and 1864. Lincoln donated a copy of the Gettysburg Address and the original draft of the Emancipation Proclamation to auctions raising money for the Commission. Altogether, the Commission raised about \$7 million in cash, half of which came from the Sanitary Fairs. Another \$18 million was donated by individuals and corporations in the form of goods and services.

Following the war, the combined public and private efforts of the federal government's Freedman's Bureau and private freedman's aid societies worked together to help freed slaves. The Bureau provided relief services, while the societies concentrated on education, with much of the money for education coming from the Bureau. By the late 1860s, teachers were in short supply, so the Bureau encouraged philanthropists to start teacher training institutes, which were also partially funded by Freedman's Bureau grants.

⁷ Bremner, p. 59.

⁸ Bremner, p. 73.

The period after the Civil War was a time of rapid expansion of relief and other nonprofit organizations, as people maintained the service spirit they had developed during the war. Charitable directories in the 1880s required as many as one hundred pages to list and describe all the agencies dedicated to relieving various forms of suffering. The rich provided large sums of money to fund hospitals, libraries, art museums, churches, and other public-benefit activities.

As in previous periods, charity reformers concentrated not on the amount of money being spent, but on how it was being used. The emphasis during this period was on developing a “more scientific spirit and method in philanthropy,” an approach that was viewed as the great achievement of philanthropy of this period, but one that recalled the teachings of philanthropists such as Mather and Franklin.⁹

The distinction between organizations dedicated to the relief of suffering and those directed towards ending the root causes of suffering continued. The American Red Cross was also founded shortly after the war by Clara Barton, who had been engaged in independent battlefield relief efforts and became a dogged advocate for humane treatment of wounded soldiers. Barton’s vision for the Red Cross in peacetime was not as a charity, however, but rather as a provider of temporary aid to normal people who were victims of disasters beyond their control, so that they could resume their normal lives. Her objective wasn’t to try to stop war or famine, but to help those affected by these and other disasters.

During the war, and in the period following its conclusion, a number of states formed boards of state charities. Operating similarly to the Sanitary Commission, board members were volunteers who inspected, reported, and recommended improvements to public welfare agencies and those that received state funding. The focus was on a “scientific” effort to increase the efficiency and humanity of state welfare services.

The state boards created a National Conference of Charities and Correction that inspected poorhouses, insane asylums, orphanages, and schools for the blind and deaf. Though state governments did not have to follow these recommendations, the Conference was a powerful force in spreading scientific philanthropy.

Growing interest in operating charitable organizations in an efficient manner led agencies to join forces. Jewish communities around the world had a long history of philanthropy, growing out of a shared value of individual charitable duty. In 1870, Jewish welfare agencies in Philadelphia joined together to form United Hebrew Charities. Four years later, Jewish agencies in New York joined force.

In the 1870s and 1880s, Charity Organization Societies (COS) were formed in many locations to serve as clearinghouses and information sources, and to provide “a method by which idleness and begging, now so encouraged, may be suppressed and worthy self-respecting poverty be discovered and relieved at the smallest cost to the benevolent.”¹⁰ These societies kept lists of all

⁹ Bremner, p. 86.

¹⁰ Quote from a Philadelphia group about the London COS, which was the first such organization, and was founded in 1869. From Bremner, p. 94.

applicants for services, together with detailed records of those services they had been given or refused. When a person came to a COS in search of aid, the COS investigated the worthiness of his or her individual situation. The COS tried to find employment for those who were capable of working, and referred others to the agency most suitable for providing appropriate relief.¹¹

One important part of the COS effort was to enlist volunteers to visit the homes of the poor. As Bremner describes, “by this means, ties of sympathy and personal interest were to be established between the rich and the poor, and the poor were to be permanently improved and uplifted.... Instead of stray coins, visitors were to bring encouragement and advice to the people they visited.”¹²

The moralistic approach of the COSs was based, to a large degree, on the assumption that poverty was due to a weakness in character, or some other deficiency that could be corrected by reforming the individual. However, as case workers began to meet the poor and understand their situations in fuller detail, they realized that in many cases the assumption was incorrect. Scientific philanthropy was based on a careful understanding of facts. And facts often suggested that issues of workplace justice and wages were important factors in the plight of the poor. At the same time (the 1880s and 1890s), labor unrest raised similar questions. In 1893, Robert Treat Paine, president of the Associated Charities of Boston, said, “Pauperism cannot be wisely considered alone, but the problem of how to uplift the general level of life must be studied as *one whole problem*.”¹³

Thus, at the end of the 19th century, scientific philanthropy and social reform were coming together, setting the stage for the emergence of a group of wealthy individuals who fundamentally changed the landscape of American philanthropy. We will discuss these changes by reviewing the lives and philanthropic innovations of these individuals: John D. Rockefeller, Andrew Carnegie, Margaret Olivia Sage, Julius Rosenwald, Frederick Goff, and Eleanor Ford.

JOHN D. ROCKEFELLER

John D. Rockefeller was born on a farm in New York in 1839, his family moving to Ohio when he was 14. He left school at 16 to work in the produce business, and founded his own firm in 1859. That year, the first oil well was drilled in western Pennsylvania, and Cleveland became a refining center. Four years later, Rockefeller built a refinery with several partners, buying them out in 1865. By the 1890s, Rockefeller’s Standard Oil Trust, owned about three-fourths of the petroleum business in the United States. Rockefeller also had substantial investments in iron, timber, and other industries. In 1911, the U.S. Supreme Court found Standard Oil to be in violation of anti-trust laws. As a result, 38 companies controlled by the parent company became independent. At the time, Rockefeller owned about one-fourth of the company’s stock.

Rockefeller began donating money from the time he began working. He had strong Baptist religious beliefs, which had a powerful influence on his view of wealth and his responsibility to

¹¹ The Denver COS, founded in 1887 by local religious leaders, became the first United Way chapter, planning and coordinating services and conducting a single fund-raising campaign for 22 agencies.
http://national.unitedway.org/aboutuw/history_detailed.cfm (February 7, 2003)

¹² Bremner, p. 95.

¹³ Bremner, p. 99. Emphasis in the original.

society. He said, “I believe it is every man’s religious duty to get all he can honestly and to give all he can,”¹⁴ and, “I believe the power to make money is a gift from God.... Having been endowed with the gift I possess, I believe it is my duty to make money and still more money and to use it for the good of my fellow man according to the dictates of my conscience.”¹⁵

He spent considerable time researching causes to which he was asked to donate. By 1891 these investigations were diluting his ability to lead Standard Oil, so he hired a Baptist clergyman, Frederick Gates, to help research charitable causes and recommend actions. Prior to joining Rockefeller, Gates was a director of the American Baptist Education Society, for whom he had studied Baptist colleges around the country. Gates’ study recommended the establishment of a major new university in the Midwest. Rockefeller, a donor to some of the colleges, was impressed with Gates’ businesslike approach. He pledged \$600,000 of the first \$1 million endowment for the University of Chicago, the first prominent university inland of the Atlantic coast, provided that others gave the remaining \$400,000. Rockefeller favored this cooperative and conditional approach in much of his philanthropic giving, agreeing to fund part of a project if other interested people would provide substantial support. Over time, he gave a total of \$35 million to the university.

In 1896, at age 57, he turned day-to-day management of the company over to others and focused his attention on philanthropy. Gates and Rockefeller became “the most powerful and creative force American philanthropy has ever seen.”¹⁶ In 1897, Rockefeller’s son, John D. Rockefeller, Jr. joined the team.

Gates and Rockefeller brought a methodical, businesslike approach to philanthropy. For instance, when Gates read about the accomplishments of the Koch Institute in Berlin and Pasteur Institute in Paris in finding cures for disease, he proposed establishing a similar medical research institute in the United States. Rockefeller agreed, and Gates met with leading medical authorities in Europe and America to define the needs of such an institute, and ensure that leading scientists would join. In 1901, four years after Gates first proposed the idea, the Rockefeller Institute for Medical Research was established. It soon became one of the leading medical research centers in the world, producing many important discoveries and Nobel-prize winning research. Over time, Rockefeller donated more than \$60 million to the Institute.¹⁷

Another major philanthropic project was the formation of the General Education Board (GEB) in 1902, which created revolutionary change in post-Civil War education in the South. The overall purpose of the Board was the “promotion of education within the United States of America without the distinction of race, sex, or creed.”¹⁸ The South was recognized as an area of special need. In the South, the GEB worked with influential southerners to gain acceptance for changes in the education system, as northerners attempting to make change directly encountered substantial resistance. The GEB made grants to improve the skills of primary school teachers for both white and African-American students. When it became clear that most of the benefits were

¹⁴ <http://www.rockefeller.edu/archive.ctr/jdrsrbio.html> (February 11, 2003)

¹⁵ Nielsen, p. 25.

¹⁶ Nielsen, p. 26.

¹⁷ In 1954, it was converted into Rockefeller University, still a leading center for biological research.

¹⁸ <http://www.rockefeller.edu/archive.ctr/jdrsrbio.htm> (February 11, 2003)

going to whites, Rockefeller exerted his influence on the GEB's board to ensure that balance was restored. The GEB distributed \$325 million during its lifetime, from 1902 until 1965.¹⁹

After 1912, the GEB initiated a major program to upgrade American medical education. At the time, American medical education was backward and neglected – particularly when compared to European standards. This situation was exposed by a research report prepared by Abraham Flexner, funded by a grant from the Carnegie Foundation for the Advancement of Teaching. The GEB responded to the Flexner report by providing \$50 million for the improvement of medical education. These gifts were conditioned upon the recipients raising an equal or larger amount of money. The focus of the program was not on increasing the number of medical schools, but on improving the quality of existing institutions. The program brought the issue of medical education to the attention of other donors and to state legislators. By the end of the 1920s, medical education in the United States had been revolutionized.

During his travels in the South, the head of the GEB had met a public health official who was an authority on hookworm disease, which was a devastating problem in the South, and which he believed could be cured and prevented at a low cost. After studying the situation for a year, the Rockefeller Sanitary Commission was established in 1909 to eradicate hookworm. The Commission instituted a massive public education and medication program in 11 states, conducting over 25,000 meetings attended by more than 2 million people. The Commission accomplished its objective by 1915, at which time it was closed.

In 1913, Rockefeller created the Rockefeller Foundation with a broad charter to improve the condition of mankind. The Foundation funded work in public health, medical education, food production, scientific research, social research, the arts, and other areas worldwide. The Foundation's International Health Division incorporated the experience of the Sanitary Commission into worldwide efforts to combat diseases such as malaria and yellow fever. In 2001, the Rockefeller Foundation's endowment was \$3.1 billion.²⁰

Rockefeller believed that the purpose of philanthropy was to attack the root causes of problems and to help people to help themselves. He was charitable, but he was not sentimental. He was not involved in the day-to-day operation of his philanthropic organizations, but he had a strategic vision that was researched and implemented by strong associates. For instance, he paid only one brief visit to the Institute for Medical Research. Waldemar Nielsen summarized Rockefeller's role, "In all his activities, business and philanthropic, he was attentive, methodical, and decisive. It was he who finally approved every major project, its funding, and the selection of the trustees and key individuals who ran it. He was the principal, and they were his agents..."²¹

ANDREW CARNEGIE

Andrew Carnegie was born in Scotland in 1835, the son of a poor loom maker. His formal education ended in elementary school and he took his first job at the age of nine. In 1848, at age 12, he came to the United States with his parents, settling in Pittsburgh, Pennsylvania. By 15 he

¹⁹ Biography at the Rockefeller University website: <http://www.rockefeller.edu/archive.ctr/jdrsrbio.htm>.

²⁰ <http://www.rockfound.org/display.asp?context=2&Collection=9&SectionTypeId=13&Preview=0&ARCurrent=1> (February 19, 2003)

²¹ Nielsen, p. 32.

was a skilled telegraph operator, and 10 years later was headed toward financial success, aided by superiors who were impressed with his talent and energy. He quickly became a railroad executive, and invested in oil, iron bridges, mining and steel making. Convinced that steel was essential to the future of the manufacturing industry, he created a vertically integrated coal and steel company. In 1901, at age 66, he sold his business to J.P. Morgan's United States Steel Company for \$480 million, becoming probably the wealthiest man in the world, and devoted the rest of his life to philanthropy.

Carnegie's view of wealth was that it was the product of natural selection, and that the wealthy were those best equipped to succeed in the competitive struggle. As the product of natural selection, the wealthy person was also the most fit to provide for the public. In doing so, he was responsible only to his own conscience and judgment of what was best for the community. In his landmark 1899 publication *Gospel of Wealth*, he stated that the duty of a person was:

to set an example of modest, unostentatious living, shunning display or extravagance; to provide moderately for the legitimate wants of those dependent on him; and, after doing so, to consider all surplus revenues which come to him simply as trust funds ... which he is strictly bound as a matter of duty to administer in the manner which, in his judgment, is best calculated to provide the most beneficial results for the community – the man of wealth thus becoming the mere trustee and agent for his Poorer brethren.²²

Carnegie had started his philanthropic efforts long before selling his company. As a self-educated man, he felt that libraries were the ideal means to help people help themselves. In 1881, he offered to build a library in Pittsburgh if the city would stock and maintain it. He later made a substantial donation to build eight branch libraries. His view of the role of public support in philanthropic ventures was illustrated in his speech at the opening of the library, when he said, "this library is supported by the community, as Pittsburgh has wisely committed to do, all taint of charity is dispelled. Every citizen of Pittsburgh, even the humblest, now walks into this his own Library; for the poorest laborer contributes his mite directly to its support."²³

He also made gifts that helped found an art gallery, a museum, and a music hall, all of which eventually became part of the Carnegie Institute. After additional gifts, the Institute included a system of technical schools, a women's college, a library training school, and a natural-history museum. Carnegie provided \$28 million in grants to support this series of projects.

While Carnegie believed that the public should support libraries and educational institutions that helped people gain skills, support themselves, and do useful work, he did not feel that public funds should be used for arts institutions. He felt that art and music were valuable "for refined entertainment and instruction of the people," but that they "are to be regarded as wise extravagances, for which public revenues should not be given."²⁴

²² Waldemar A. Nielsen, *Inside American Philanthropy: The Dramas of Donorship*, (Norman, Oklahoma: University of Oklahoma Press, 1996), p. 34

²³ Nielsen, p. 35.

²⁴ Nielsen, p. 35.

Carnegie offered free library buildings to other communities, as long as they would pay the operating costs. This was his single largest gift program, to which he contributed more than \$60 million for the construction of nearly 3,000 public libraries in the English-speaking world.

Education was a major focus of Carnegie's philanthropy. In addition to the library program, he donated \$10 million in 1901 to establish a trust for universities in Scotland, intended to improve their research and teaching and to provide student scholarships. In 1902, he created the Carnegie Institute in Washington, D.C. The Institute was an important innovation, in that it brought many disciplines (including astronomy, geophysics, botany, nutrition, and other fields) together to conduct interdisciplinary research and experimentation.

Another important initiative was the Carnegie Foundation for the Advancement of Teaching (CFAT), founded in 1905. One of CFAT's purposes was to study needs in American higher education. One CFAT study was the basis for a Rockefeller initiative resulting in major reform of American medical education. Another part of the initial CFAT program was free pensions, a program personally designed by Carnegie. This evolved into the TIAA-CREF contributory plan available to employees of all types of nonprofit organizations, and the largest private sector retirement system in the world.

Carnegie also became active in studying and promoting world peace, donating money for buildings that housed organizations involved in arbitrating international disputes, and creating research foundations to study the causes of war, help develop international law, educate the public, and promote peaceful means of settling disputes.

In 1911, Carnegie made his most important philanthropic donation, creating the Carnegie Corporation, with an endowment of \$125 million. This organization had a broad charter, as its trustees were to use the funds "in promoting the increase and diffusion of knowledge and understanding amongst the people." By end of FY 2001, the Carnegie Corporation would have assets of \$1.7 billion.²⁵

Of his vast wealth, nearly \$500 million in 1901, he used almost all for philanthropy, leaving just \$15 million to his family when he died in 1919.

MARGARET OLIVIA SAGE

Margaret Olivia Slocum (1828-1918) was a well-educated teacher who in mid-life married wealthy New York widower Russell Sage. Russell Sage did not believe in charity, and was regarded as a cold-hearted miser. Margaret, his second wife, however, had a quite different orientation. She inherited \$63 million upon his death in 1906, making her the richest woman in America. In April 1907, she endowed a philanthropic foundation, the Russell Sage Foundation with a gift of \$10 million.

²⁵ Fiscal year ended September 30. Carnegie Corporation 2001 Annual Report, <http://www.carnegie.org/sub/about/ar2001.pdf> (February 11, 2003)

She believed that a foundation should be “elastic in form and method to work in different ways at different times.”²⁶ Her letter of gift to the Sage Foundation incorporated this philosophy, stating that the money was intended to be used for:

the improvement of social and living conditions in the United States of America....

The scope of the Foundation is not only national but is broad. It should, however, preferably not undertake to do that which is now being done or is likely to be effectively done by other individuals or by other agencies. It should be its aim to take up the larger and more difficult problems, and to take them up so far as possible in such a manner as to secure co-operation and aid in their solution....²⁷

The Foundation’s charter was notable both for its flexibility and for its explicit public policy orientation. At the time the Foundation was established, there were only eight other foundations in the country, just two of which had capital greater than Sage’s.

The Foundation hired a professional staff and commissioned studies of social conditions. The Foundation was a highly respected research and policy center, and brought together experts from many fields – academia, government, and private organizations – to investigate and recommend initiatives on a wide range of social issues. Its studies had a significant impact on public policy and legislation.

During its early years, the Foundation focused on problems of the poor and elderly, hospital and prison conditions, and developing professional social workers. Consistent with the flexibility envisioned by its founder, it later turned to strengthening the social sciences as a way of developing more informed and rational social policy.

JULIUS ROSENWALD

Julius Rosenwald, born in 1863, was the son of poor Jewish immigrants from Germany, and grew up in Springfield, Illinois. At age 17, he went to New York to learn the clothing business. While in New York, he also learned of the plight of Jewish refugees who had escaped bloody pogroms in Russia by coming to the United States, an experience that helped shape his later philanthropy. After completing his apprenticeship in New York, he moved to Chicago and opened a clothing store.

Rosenwald joined Sears, Roebuck & Company when it was a struggling new mail-order company. At the time, Sears lacked the logistical capability required to get mail-order goods to rural America in a time before telephones were in widespread use, and when travel was by train and horse-and-carriage. Rosenwald developed the needed infrastructure, rising to become president of the company in 1910, and chairman in 1925. Rosenwald was an essential part of Sears’ dramatic success, and amassed a \$200 million fortune in the process.

²⁶ Nielsen, p. 94.

²⁷ http://www.russellsage.org/about/letter_of_gift.htm (February 12, 2003)

Unlike Rockefeller, Carnegie, and many of their predecessors, Rosenwald did not believe that wealth was divinely ordained or the result of some form of superiority. He once said:

I believe that success is 95 percent luck and 5 percent ability. I never could understand the popular belief that because a man makes a lot of money he has a lot of brains. Some very rich men I know who have made their own fortunes have been among the stupidest men I have ever met in my life.²⁸

Rosenwald was involved in charitable activity from his days as an apprentice in New York. During this period he said, "The aim of my life is to make \$15,000 a year - \$5,000 for expenses, \$5,000 to be laid aside, and \$5,000 to go to charity."²⁹

By 1912 he was giving away \$500,000 a year, mostly in the form of small gifts to charitable organizations and needy individuals. He had a strong interest in supporting the causes of oppressed and disadvantaged people, and favored projects that helped people improve their lives. He made large matching grants for the construction of YMCAs for blacks in cities across the country, and later a similar YWCA program for young black women. During this period many African-Americans were moving from the rural South to northern cities, and the YMCA and YWCA provided them with shelter and recreation, as well as vocational and educational programs.

Rather than funding large projects himself, he tried to leverage his gifts by making them challenge grants. Rosenwald conducted careful research on organizations that applied for funding, but was also willing to support individuals whose ideas and commitment impressed him. When the number of funding requests became so large that he could no longer conduct the necessary investigations himself, he hired an assistant. However, Rosenwald made the final funding decisions.

Rosenwald's philanthropic program focused on people rather than institutions. He said: "[It] is unselfish effort, helpfulness to others that ennoble life, not because of what it does for others but more what it does for ourselves. In this spirit we should give not grudgingly, not niggardly, but gladly, generously, eagerly, lovingly."³⁰

Like Rockefeller, Rosenwald took a strong interest in the education of southern blacks. Inspired by the work of Booker T. Washington, he made substantial gifts to Tuskegee Institute, then embarked on a program that resulted in construction of 5,357 public schools and associated facilities throughout 15 southern states. The total program cost \$28 million, of which Rosenwald provided 15 percent, with most of the balance coming from local taxes. It was estimated that by the 1920s, about 60 percent of American blacks who finished elementary school had been taught in Rosenwald's schools.

In 1917 he formed the Rosenwald Fund, which was initially made up of a board consisting of family members, supported by a small staff. It became a professionally organized foundation 10

²⁸ Nielsen, p. 40.

²⁹ Nielsen, p. 40.

³⁰ Nielsen, p. 42.

years later. His philanthropic program now had two primary areas of focus: helping American democracy, and helping Jews in need. Both areas of focus were influenced by Rosenwald's youth: his immigrant family had experienced the benefits of democracy, and his New York experience had heightened his awareness of the plight of Jews around the world. His interest in helping disadvantaged Jews led his philanthropy to take on an international character. Rather than supporting Zionism (he did not believe that a Jewish homeland in Israel was economically viable), Rosenwald believed that Jews should become economically viable in the countries in which they already lived, and supported projects to help them develop industrial skills and farms. Closer to home, he was a leader in establishing services to meet the needs of 100,000 Jewish immigrants who settled in Chicago, and in 1923 became the first president of the Jewish Charities of Chicago.³¹

Rosenwald served as a trustee of the Rockefeller Foundation, and came to believe that a foundation that was an effective social agency should have a policy-making board representing a wide range of interests and experience, as well as a strong professional staff. As he gained experience in philanthropy, he developed a concern about the common philanthropic practice of maintaining a fund in perpetuity. His orientation was on people, not in creating institutions, and he felt that the wealth created in each generation should be used to meet the needs of people of that generation. Each new generation should rise to meet the needs of its time. Therefore, he established his foundation with the stipulation that all funds would be spent within 25 years of his death. The Rosenwald Fund spent its final years working to improve the medical and educational conditions of blacks, and closed its doors in 1946, 11 years ahead of its founder's deadline.

FREDERICK GOFF

In 1908, Frederick Goff left a high-paying legal partnership in Cleveland, Ohio to become the president of the Cleveland Trust Company, a struggling bank. In addition to strengthening the bank, he became interested in the untapped potential of charitable bequests under bank management. The law required that these funds be used strictly according to the instructions of the deceased, even if these purposes had become irrelevant. For instance, Benjamin Franklin had created a trust in the early 1800s to help apprentices. By the late 19th century, the U.S. economy was no longer based on an apprenticeship system. Since society's needs continually changed, no one could foresee the best future use of their bequests, yet changes in bequests were possible only after long delays and high legal costs.

Seeking to find a way to prevent millions of dollars intended for charitable use from going to waste, Goff devised a new type of foundation – one in which the banks would invest the funds, but a separate group, consisting of community leaders, would distribute the money earned from these funds. In 1914 this idea was approved by the bank, and the Cleveland Foundation was formed.

³¹ <http://www.networkchicago.com/chicagostories/rosenwald.htm> (February 12, 2003). In 1900, four Jewish agencies in Chicago formed Associated Jewish Charities. In 1911, eleven agencies and schools formed the Federated Orthodox Jewish Charities, becoming the Jewish Charities of Chicago. This was the predecessor of today's Jewish Federation of Metropolitan Chicago. (http://www.juf.org/get_involved/inside_chron.asp (February 19, 2003).

Goff began building the Foundation by using his own money, as well as that of the bank, to conduct a series of studies on community needs. These studies covered issues ranging from the city's welfare system, to the public schools and the city's recreation system. Each study was an objective, critical analysis, including recommendations for improvement.

By 1917 the Foundation had gained sufficient credibility that people began making donations, and within two years it was generating enough income to hire a full-time director. By the mid-1920s the Foundation's emphasis turned toward distributing money to meet community needs.

Having formed the Cleveland Foundation, Goff began working to promote this new philanthropic approach in other communities. He met with his legal and banking friends, and personally presented his ideas to leaders in many cities. In 1915, the year after the Cleveland Foundation was established, eight new community foundations were formed, in cities ranging from Los Angeles to Boston. By the time of Goff's death in 1923 there were 31, and by 1931 there were 74, all based on the Cleveland model.

In 2001 the Chronicle of Philanthropy recognized the founding of the Cleveland Foundation as one of the 10 most important events that shaped the nonprofit world in the 20th century.³² By this time there were over 660 community foundations in the United States, and many others around the world. Assets in American community foundations totaled \$31.5 billion in 2000, resulting in grants of \$2.2 billion.³³ In 2002 the Cleveland Foundation was the second largest community foundation, with assets of more than \$1.5 billion and annual grants of more than \$70 million.³⁴

ELEANOR FORD

Eleanor Ford was the wife of automaker Henry Ford's son, Edsel. Eleanor and Edsel had philanthropic interests, and together with Henry formed the Ford Foundation in the 1930s. The original intent was to provide a way of making gifts to charities that served the local community.

By 1948, both Henry and Edsel had died, and the Foundation had inherited ownership of nearly all shares of Ford Motor Company. In the early 1950s, the company was in dire straits. Eleanor Ford made key decisions that saved the company from bankruptcy, and brought in new management that turned it around.

The Ford Foundation had not previously had a strong direction, but as the motor company prospered, it became apparent that the Foundation would become a substantial institution. Eleanor Ford persuaded the Foundation to create a committee of experts to advise on the Foundation's future structure and purpose. This committee consisted of a diverse group of talented people who worked for two years, and consulted with individuals and groups across the country. The resulting report "still stands as the finest effort of its kind to set a new foundation's priorities and define its role on a rational and carefully studied basis."³⁵

³² "Back to the Future: How the Past Century Shaped Today's Nonprofit World," *The Chronicle of Philanthropy*, <http://philanthropy.com/premium/articles/v13/i06/06004903.htm> (February 20, 2003)

³³ *Giving USA 2002* (Indianapolis: AAFRC Trust for Philanthropy, 2002), p. 87

³⁴ <http://www.clevelandfoundation.org/page1426.cfm> (February 12, 2003).

³⁵ Nielsen, p. 131.

Over the years the Ford Foundation became one of the world's most significant philanthropic organizations, with assets of over \$10 billion in 2001, a year in which it spent \$930 million in grants and other program-related funding.³⁶

SUMMARY

The rise of major foundations in the 19th and 20th century completed a transition in American philanthropy. Early philanthropy was largely based on relatively narrow, focused efforts to alleviate suffering in local communities. By the late 19th century, there was an emphasis on “scientific” philanthropy, in which the root causes of social problems were rigorously studied and attacked. Eliminating the causes of suffering was not a new concept, and had a long history in American philanthropic thought, but the resources that could be brought to bear by large, well-funded institutions provided the capability for accomplishing meaningful social improvements that could not previously be imagined. Modern American philanthropy is the product of this development process.

STUDY QUESTIONS

1. What aspects of early philanthropy are part of today's philanthropic institutions, strategies, and practices?
2. Which philanthropic innovations and models discussed in the case had the greatest influence on American society (past and present), and why?

³⁶ <http://www.fordfound.org> (February 12, 2003)