Episode 670: Private Philanthropy: The Subject Your History Textbook Left Out

Guest: Karl Zinsmeister

WOODS: Tell me about the Philanthropy Roundtable before we get started.

ZINSMEISTER: Well, we're an association based in Washington, D.C. that helps donors of all types basically become more effective and more efficient at what they do. So we try not to prescribe what they should do, but we try to just make them do it well, because private giving is just a really important part of our nation and solver of public problems.

WOODS: I wonder about the trends in private giving. Now, how long have you been with the Philanthropy Roundtable?

ZINSMEISTER: I've been here, what, four or five years, something like that. And it's gone up every year. That's kind of been the pattern through American history. But there's a very interesting kind of constant, which is that private giving has, with little ups and downs here and there, basically averaged about 2% of GDP for forever. And that's a big number, Tom. Just to remind our listeners, 2% of GDP this year is roughly $360 billion. That's how much cash got given away last year. And in addition to that, of course you have to consider the value of volunteer labor, the hours that people put into nonprofit and charitable projects. If you put some sort of reasonable dollar figure on the per-hour contributions, that would be close to that much more money. So we're talking about, you know, $700 billion, something like that effectively of in kind and cash support that Americans are putting up voluntarily. Pretty extraordinary number, really.

WOODS: Yeah, and I ask you not so much because I want to say, "USA! USA! USA!", but just out of general curiosity. I know I've heard it said, certainly by politicians that I'm not sure I can trust, that America's a very generous country and so on and so forth, but do you know any numbers that we can use to compare American giving with giving in other countries?

ZINSMEISTER: Yeah, it's really just startling. There aren't many things where any country kind of is an outlier all by itself, but private giving, voluntary giving is one where the U.S. just does not have a counterpart, Tom. Our giving is about 40% more — on a fair basis, on a per capita, adjusted for inflation, adjusted for the sizes of their

economies and so forth. If you compare in that fair way, our giving is about 40% higher per person than the Canadians, which would be our closest —

WOODS: Wow.

ZINSMEISTER: — our closest competitor. And then it just falls off a cliff. From there you go down to — giving in Germany, for instance, is one-tenth of our level. Japan, France, one-fifteenth, one-twentieth of our level. So there really is no other country today that has this powerful tradition of solving problems through voluntary giving.

WOODS: Yeah, all right, so now we get to the heart of what may be the explanation. I mean, as you say, when you have an outlier like this it's very unusual, and it really demands explanation. Is it a cultural difference? Is it a matter of — I mean, obviously a lot of these are places with big welfare states, and that may encourage the idea that I don't need to do any giving because the government's already taking care of everything.

ZINSMEISTER: It does — that's certainly part of it. If I had to sort of boil it down to the most important consequences, I would say three things, Tom. I'd say, first of all, religion is absolutely, definitely a part of this. As you and I'm sure most of our listeners know, the United States is very unusual for an industrial country of its sort to have extremely high levels of religious practice at the same time. And that's a big part of philanthropy. We know that religious causes are the number one place that people give their money. More than a third of all those donations I said go to religious topics. And it isn't specifically just building up churches; it's, you know, when you help people in Africa, that often comes through a religious organization. A lot of homeless projects are religiously based. A lot of educational alternatives are religious schools. So religion covers a lot of waterfront, but that is a huge part of what makes people give in this country, and our religious heritage is important there.

The second place I would identify that's really distinctive is our entrepreneurial tradition. For whatever reason, big private giving, serious, methodical private giving is really closely linked to entrepreneurship. It's not closely linked to corporate business, but it is very closely linked to the kind of self-made guys who go out there, form companies, and often later in life end up being very, very generous donors.

And the third piece is this kind of cultural element. You mentioned culture. You know, we were a frontier nation, where very often the societies were up and running before there was a state, before there was any official government. Now, that doesn't mean that they didn't govern themselves, but they governed themselves informally through civil society, through associations in groups and neighborly gatherings. And that tradition of "we've got a problem, we'll solve it as citizens rather than as subjects of government" stuck. You know, when there were storms and barns blew down, people rebuilt them together without a state edict or a state intervention of any sort. And that became a habit. It became a trope. It's very distinctive in our past, and it's something that continues today.

WOODS: Isn't that one of the complaints about philanthropic enterprise, that government could carry out a lot of these functions a lot more efficiently if we had experts in charge, and if you just have people doing haphazard giving, there's no way that can have the same level of efficiency?

ZINSMEISTER: Actually, that is an argument you hear, Tom; you are correct, and it is just completely spurious. The book I just finished on this topic, which is called *The Almanac of American Philanthropy,* takes that on frontally. And I talk about that, and the reality is that philanthropy is actually much more efficient than government, and perhaps even more importantly, it's much more inventive. It's obviously more varied, and when you have lots and lots of different attempts to solve problems, you will pick up different pieces of the dilemma in different ways. And you know, human beings are not robots. They vary tremendously. Our regions still vary tremendously. The nature of our dilemmas vary, and when you have multiple takes on solutions, the history is that that is simply going to be much more effective, because, you know, the way you fix an education problem is not the same in northern Manhattan as it is in Manhattan, Kansas. And so you've got to have variations, and the kind of variety — people will sometimes call it crazy quilt of different solutions through philanthropy, they sometimes say that dismissively — actually is a strength in the long run, I think, of the entire industry.

WOODS: Who's doing the giving? Is it a small number of big givers, or is it a large number of small givers, or what is it?

ZINSMEISTER: That's a really fascinating question. The amazing thing is that most of the giving is actually everyday Americans. Let me just give you the figures on that. For the latest year, last year, only 14% of all of our giving came from foundations. So we have the Linda Gates Foundation and the Rockefeller Foundation, and we think, oh, that's philanthropy. Actually that's a very small part of American philanthropy. All together every single one of those foundations totaled up came to only 14% of the cash we donated voluntarily. And corporations only gave another 5%. So where did the other 81% come from? From individuals. Now, some of that came from wealthy individuals writing checks, but the vast portion of it came from everyday American families who give today at the rate of about $2,500 a year per household. And you multiply that by 100-and-some million households, and you get big money. So this is a very democratic phenomenon, very, very broad base, and that's a big part of its power.

WOODS: All right, so now let's talk about what are people giving to. You mentioned religious outlets, and as you say, that can encompass a wide array of different projects. That's not just, as you say, the building of churches, but churches are involved in a lot of activities. But other than that, is it for helping the poor? Is it historical preservation? How does it all break down?

ZINSMEISTER: Oh, both. It's really fascinating. The number two area I believe just — I'm remembering here — is medical philanthropy of various sorts, and then there's kind of children and families, and education is big up there, the anti-poverty work you just

mentioned. But there's also things like nature, animals, veterans, overseas giving. There's just a huge range of things that Americans are interested in, and the thing that really startled me, Tom, when I got into my research for this huge book — this 1,300-page book, it's really an exhaustive look at this whole phenomenon of private giving. And when I went into it, I had no idea how many things have been approached by private donors and how many things have been solved by private donors. And it goes into areas you would never guess.

For instance, I was just amazed to learn that the guy who really won World War II for us was a private donor, who made it his personal project to develop radar systems that went into thousands of planes and ships during the war. There were of course government programs to develop radar, and they were just horribly bogged down in red tape and bureaucracy and ineffectiveness. And an gentleman named Alfred Loomis, who was one of the wealthiest men in the country and a very, very talented scientist himself on the side, recognized this. And he went into action. He set up his own lab, mastered the basics of radar, and then led the national effort to produce these, make them practical devices, and it actually helped us win World War II.

He did much the same thing then with the Manhattan Project. Many of the scientists he recruited for his radar project were moved directly into the Manhattan Project, and most of his method, his very kind of entrepreneurial, unconventional method that he set up was also transferred over to the Manhattan Project. He personally was a great friend of Ernest Lawrence and built the cyclotron, where most of the uranium was purified for the bombs that were used over Japan. So again, one individual donor in this case was hugely important in winning a war effort, which is something we all think of as perhaps the ultimate government responsibility, not a place that philanthropists could be of any use. Well, they were. They have been, and there are lots of other fields like that.

WOODS: I'm looking at the Amazon page for the book. I didn't realize that, as you say, it's about 1,300 pages, and yet, the hardcover, it's a hardcover book, for only $25.

ZINSMEISTER: Yeah.

WOODS: That's probably — I mean, this looks like a book that must've been released 100 years ago at that price. That's unbelievable.

ZINSMEISTER: (laughing)

WOODS: And in the description, of course, the description of the book includes some of the things that we've talked about, the amount of money donated every year and the U.S. ratio as compared to others. But then, let me just read from this: "Until now, though, there has been no definitive book on America's distinctive philanthropy. This authoritative, highly readable new reference fills that hole. In a single volume, it chronicles the greatest achievements of American private giving, profiles the most influential donors, collects the essential statistics on philanthropy, and summarizes the best ideas on charitable assistance that have been written or spoken." So a

tremendous book to own for a lot of reasons, but it is an area which, you know, ever since — I guess it was de Tocqueville said in the 1830s, one of the things that impressed him was that he came to the U.S., and whenever some project needed to be undertaken, people just got together and formed an association and did it. So it's been part of the American character for a good 200 years.

ZINSMEISTER: Absolutely, and you know, people don't ask permission, even to this day; they just kind of act. I'm encouraging people — I'm giving a lot of talks about the book around the country, and I'm encouraging people to think of those millions of donors and those hundreds of thousands of local nonprofits as basically miniature legislatures. That's really what they are. They look around themselves and say, hmm, here in Des Moines we have an issue with parks. We don't have enough parks, and we need a children's hospital, and we've got a homeless problem. And then, again, they don't write their congressmen and say, "Please fix this stuff," "Mother, may I?" They just jump in there, and they apply their time and their energy and their resources to solve things. And that happens over and over, all across the country.

And there's a temptation to think, well, that's just a little drop in the bucket here and there, but if everybody's doing that, if people are doing that in Des Moines and every other state, and even within those cities there's different groups and different factions, and it becomes this might river of joined effort. It's your classic kind of spontaneous order that emerges when people take responsibility for their own lives. And you're right; it impressed de Tocqueville and impressed a lot of early observers, and it's very much a part of our culture today.

The other thing that's interesting, Tom, is this book is so fun to read. I mean, maybe it sounds like an encyclopedia to people, and there is that aspect. We really tried to make it *the* authority, kind of the bible of private giving and philanthropy, but it's so much fun to read, simply because these characters, these characters are larger than life. There's just these amazing people in there who kind of just jumped into the fray and were not intimidated by the scale or scope of problems, decided they wanted to act. Not all of them are moguls. Again, I have lots and lots of stories of little people who kind of just chipped off a piece of the national puzzle and said I'm going to work on this and did some astonishing things.

WOODS: Yeah, give me an example of one of those people.

ZINSMEISTER: Well, you know, theres some really great stuff. There's this wonderful story some of our listeners may have heard of a washer woman in southern Mississippi. Literally just made her living, Tom, boiling clothes over a fire and then hanging them on a line and drying them. And this is what she did for her whole life; was probably paid mostly in quarters and nickels and dollar bills, literally. And she, like a lot of Americans, was a serious saver, she was very thrifty, and toward the end of her life, she kind of sat down with the bank president in her hometown, and she said, you know, what, I have several hundred thousand dollars in the bank, and I've decided I need about $150,000 to live on now that my arthritis is too bad and I can't do laundry anymore. And the rest of it I want to give to the local university to set up some

scholarships. And people were just breathtaking that this very humble woman who had worked so hard all of her life chose to do this with her proceeds. They were so moved that people in the entire region just kind of spontaneously decided they wanted to match her gift, so there was this big outpouring of supplementary donations to follow Oseola — her name was Oseola McCarty. And these were pooled together and sent to the university and have been funding a number of scholarships every single year since. So there's just beautiful stories like that.

There's another guy I became acquainted with who was a shoe shiner and shined shoes in Pittsburgh. And I don't know quite what reason it was, Tom, but at some point in the 1980s he decided he was going to give all of his tips to the children's hospital there in Pittsburgh for their Free Care Fund, which is for families who can't afford to have their kids treated. And he did this methodically for the rest of his career. He just recently retired. And he ended up donating — I don't have the figure in front of me, but I think it was something like $250- or $300,000. So, you know, small gifts can really make differences in people's lives, particularly if, as in our country, lots of and lots of — a big portion of the population are making those kinds of gifts.

WOODS: In your speech in Hillsdale, you used a word people probably don't use that much. Most people go through their lives not using it, and I bet you know what I'm going to say: polyarchy. Can you talk about that word and what it has to do with anything?

ZINSMEISTER: Yeah, I'm trying to singlehandedly revive it here, Tom, so thank you for getting it out there.

WOODS: Oh, hey, it's my pleasure. I'm just here to help.

ZINSMEISTER: (laughing) It's actually much easier to understand and remember than you think. It's kind of the opposite of monarchy. Everyone knows monarchy: you know, one guy has all the power and all the authority. Polyarchy's the opposite: when authority and power are widely distributed all across a society. And those of our listeners who have done much traveling will know that America' s pretty unusual in this regard. If you're in France, the whole world centers around Paris. That's where the educational center is; that's where banking takes place; that's where industry's based. If you're a musician, you've got to be in Paris. Same thing is true as in France, you know, Tokyo is the center — that's not true in the U.S.

The U.S. is a much more widely decentralized culture, where the center of banking is Charlotte, and if you're in the energy sector you're going to be in Houston, and if you're in entertainment you might be in Nashville or you might be in Los Angeles. And you know, the technology folks are in Silicon Valley or perhaps Boston. If you're a rock and roll guitarist, you might be in Minneapolis. So we have a very broad distribution of resources and authority and ideas and energy across our country. Very, very important part of America America, and philanthropy has a lot to do with that. Philanthropy, again, are these millions little legislatures that bring authority and power to remote places. And this often comes up as a practical issue.

For instance, there's a guy who made a lot of money in the investment business in Kansas City and wanted to set up a big medical research facility. So all the professional advisors said, oh, of course, you should give it to Sloan Kettering or you should give it to Johns Hopkins or one of the big dogs. And he said, actually, I kind of want to keep the money here in Kansas City where I made it. And they were horrified; they said, oh my gosh, Kansas City's not a center of biomedical research; you can't do that. And they said, at the very least, send it to one of the existing big city centers and set up your own new institution there. And he said, no, I'm actually going to set up a new institution right here in Kansas City. Anyway, he ended up creating what's called the Stowers Institute, which has had a remarkable record since then, and has, by the way, turned Kansas City into a biomed research center. And those kinds of decisions take place over and over in all kinds of places and have created a wonderfully kind of broadly distributed prosperity across this country. So polyarchy, again, this distribution of resources, and philanthropy go hand in hand and are something that Americans can be very proud of.

WOODS: What is the relationship between philanthropy and tax policy? Is there one?

ZINSMEISTER: There is, of course. Our tax system is set up to basically not tax you on money that you give to others, and the notion there is a fundamentally sound one, that you're not consuming your income if you give it to others. If you give it away, it's not properly considered income, because it doesn't come to you. It also, however, has really important practical ramifications. As we discussed, for instance, more than a third of all charity goes through some religious institution, and the nonintervention of the state in the form of keeping its hands off of any sort of nonprofit or charitable activity is really important to kind of separating those functions. So this tradition we've always had of making charitable donations tax free end up making charities not taxed either is really important to our liberty, really important to the effectiveness and the power of our philanthropic sector.

WOODS: Is there every any possibility that there will be government policy that could undermine philanthropy that might put a cap on how much money would be deductible that you could give? Is there every any talk about that?

ZINSMEISTER: Oh, all the time. President Obama's tried — I'm trying to remember — I think about a half dozen times to do exactly what you just described.

WOODS: That's what I thought. I didn't know if I was remembering that right. Okay, yeah, tell us about that.

ZINSMEISTER: Yeah, it's very worrisome, actually. Yeah, there've been these spasms from time to time to try to cap philanthropy, and the arguments always used are, oh, that's lost income to the government, that's billions of dollars of money that we could be collecting as a government and doing public good with, instead of letting it be directed by amateurs. It's really a deadly argument, a crazy argument. It's very undemocratic and very centralist in its kind of orientation. But government is a very

jealous master. Government does not like to have competing institutions, and philanthropy is directly in competition in a lot of areas.

I mean, philanthropy has, for instance, really set up the entire charter school business. I mean, once charter schools are operating they get public funds, but you have to find and buy a building; you have to train schoolteachers; you have to write a curriculum; you have to create a whole infrastructure. All that is done with donated funds. And charter schools have been enormously successful, and not only have helped millions of children directly, but have kind of put the lie to this notion that, oh, some inner city kids are just bearing so many burdens from their background, they can't be educated. That's the excuse you hear from a lot of inner city public school leaders, and it's bogus, and the charter schools have proven this. You literally have charter schools in Harlem right now that are getting better test scores than schools in suburban Westchester. It's just shocking and wonderful and startling, but it shows that if you have proper standards and you devote yourselves to the task, even children bearing different social burdens can be educated.

And this makes teachers' unions look bad; it makes public school administrators look bad; it makes politicians look bad. And some of them are jealous and frustrated and strike out, either subliminally or directly. And that's one of the reasons it's very, very important for Americans to be zealous in guarding the independence and the liberty and the freedom and the choices that we currently have to direct our money wherever we please, whatever we think needs doing, whatever we choose, and not whatever some bureaucrat approves.

WOODS: Well, I'm looking right now at PhilanthropyRoundtable.org, and it's got a whole — I mean, I'd love to just start reading some of these links, because it's got all kinds of items of interest, and some of them are actual examples of philanthropic activities that have had really, really good results. And this is especially important today, because it's an election year and every election year you get people who do believe in a free society more or less, and they're all down in the dumps. They say, oh, the candidates are terrible and no matter what happens, America's going down the tubes; there won't be any America again. And just this week, I hit Episode 666, so I thought, you know what, darn it, on that episode I'm going to do the opposite; I'm going to talk about good and favorable and optimistic things. And this is exactly it. PhilanthropyRoundtable.org actually has real examples of good things happening.

ZINSMEISTER: Thank you, Tom, but yeah, I mean, I'm basically making the exact same message you just did, that however frozen our government is today — and Lord knows it's not inspiring most of us — however horrible that tundra looks to those of us who love liberty and who really want to have America thrive as it has in the past, you don't have to shut down. You don't have to be discouraged by that government lockup, because there are other ways to solve problems. This is so important for people to understand and appreciate.

I just finished an article that's going to be in the next issue of our magazine, Tom. We publish a quarterly magazine called *Philanthropy*. And this story was just such a thrill for me to put together. I basically interviewed a bunch of the directors of some of the greatest science labs around the country — mostly medical research labs, but not exclusively. And they told me philanthropy's unbelievably important. Now, as a fraction of the total flow of money they get, the private giving is not nearly as big as what comes from the NIH, the government National Institute of Health or the National Science Foundation. Those are the big public sources, and they are incredibly bureaucratic. And you know, they're important. I'm not against public funding of medical research.

But the reality is that it is extremely stodgy. It is extremely slow-moving. It is inflexible, and it has very small effects on the net innovation of our country, the new drugs, the new treatments, the new, exciting things that save lives. A lot of that comes from private giving, simply because it has so few strings attached, because it is so much nimbler, so much more able to be redirected.

Just to give you a quick example, I mean, the average age of first grants for an NIH medical researcher is 45 years old today, and only 1% of all NIH money goes to a researcher who's 35 or younger. A lot of our listeners know that, you know, science is like the Olympics. You're over the hill when you're 35. I mean, most interesting, paradigm-breaking, new discoveries come from young people, who haven't yet been conditioned with the conventional wisdom and who have the sort of freshest knowledge as they come out of their training. And the fact that those people are finding it so hard to get public funding, and a lot of them are sort of starving to death or leaving the profession or kind of giving up, there's actually a term. They call it the Valley of Death for these young researchers who can't get government funding, because government funding is so stodgy, conservative, and basically only willing to bet on horses that have already won. Well, if you're a two-year-old thoroughbred ready to roar but haven't run a race and they won't let you get into the race until you've proven yourself, that's a terrible catch-22 circle. So philanthropy's been really important in science of all sorts in sort of really helping true innovation and growth and fresh discovery take place.

WOODS: Well, the book is *The Almanac of American Philanthropy*, and the website we've been talking about is PhilanthropyRoundtable.org. I'll link to both of them on the show notes page for today, which is TomWoods.com/670. And it's a beautiful book. You really should consider getting it, and it could be a good gift in certain circumstances. So Karl, I appreciate your time. It's a topic we have not yet covered, oddly enough, in 670 episodes, but I would say philanthropy and liberty go very well together, and I'm glad you're doing what you're doing. Thanks so much.

ZINSMEISTER: Likewise. Appreciate you having me.